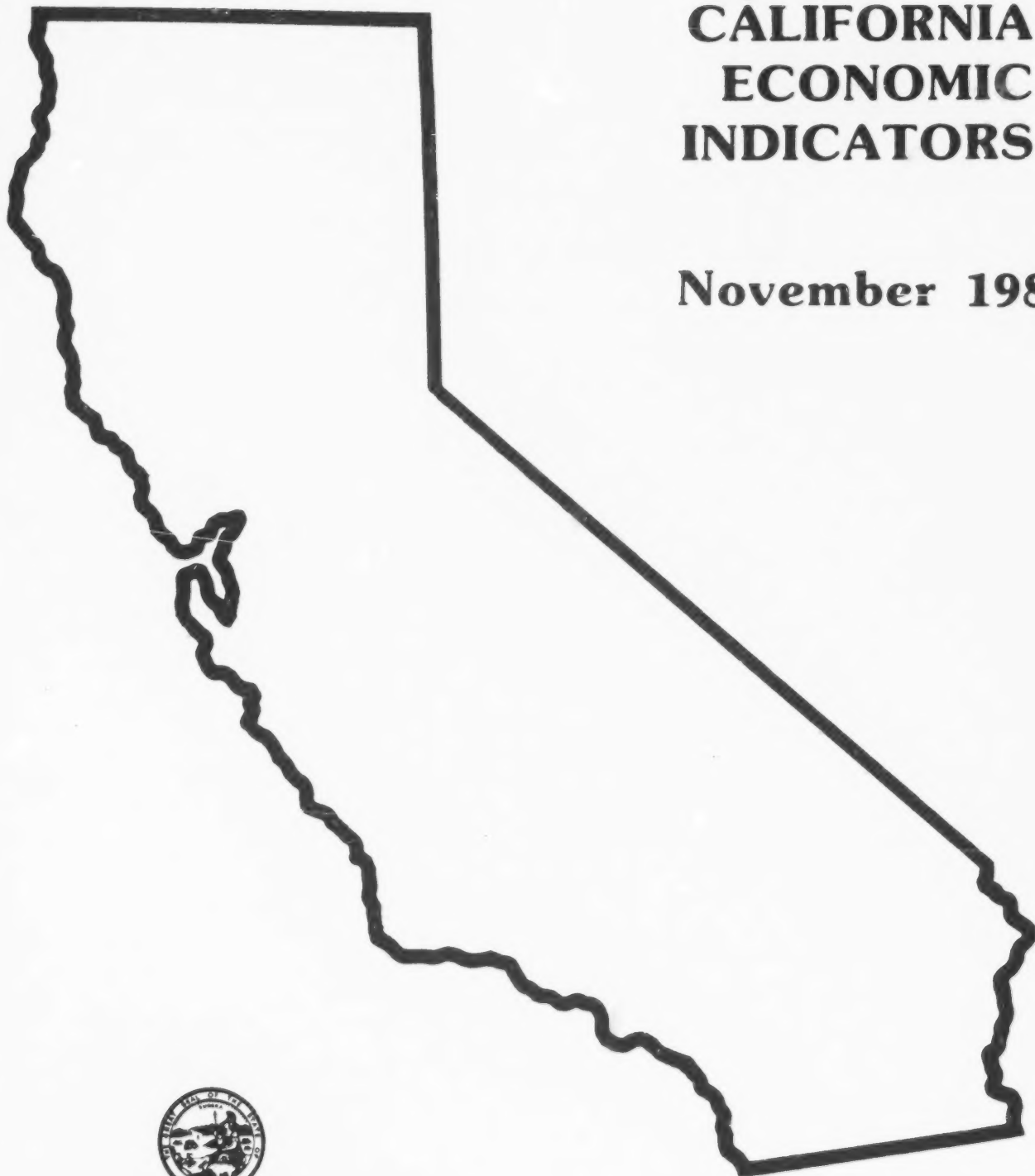


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# **CALIFORNIA ECONOMIC INDICATORS**

**November 1986**



**DEPARTMENT OF FINANCE**

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## INTRODUCTION

California Economic Indicators is a bimonthly summary of economic trends and data relating to the State of California. Generally patterned after the U.S. Census Bureau publication Business Conditions Digest, the report contains regular features.

Developments in California over the most recent months are reviewed in a brief text, and then summarized in current data tables which show changes over the previous year. Charts containing monthly and quarterly series from 1974 are included to facilitate the review of current developments, and to appraise the significance of the developments on the State economy. Much of the data in the report has been seasonally adjusted by the source agency or the Department of Finance.

Reference dates for U.S. business cycles, as determined by the National Bureau of Economic Research, are also shown. Finally, sources are cited on the inside back cover to assist readers in obtaining any additional information on the statistical series published.

The Department of Finance welcomes suggestions on additions or changes which would make the Indicators a more useful publication. Correspondence should be addressed to State of California, Department of Finance, Financial Research Unit, 1025 P Street, Sacramento, CA 95814.

Subscriptions are \$8.00 per year, and begin with the January issue. The subscription price will be prorated throughout the year based upon the beginning subscription date, as shown below:

| <u>Beginning Subscription Date</u> | <u>Prorated Amount Due</u> |
|------------------------------------|----------------------------|
| January                            | \$8.00                     |
| March                              | 6.75                       |
| May                                | 5.40                       |
| July                               | 4.05                       |
| September                          | 2.70                       |
| November                           | 1.35                       |

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## REVIEW OF ECONOMIC DEVELOPMENTS

The California economy is showing somewhat mixed trends. Overall, the State continues to do better than the Nation. Employment gains are higher, and the unemployment rate is lower. Housing activity has remained stronger, and income gains are better. On the other hand, there have been some concerns expressed that retail sales may be softer than elsewhere in the U.S. The overbuilding situation in nonresidential structures has already begun to slow the pace of construction activity. Furthermore, employment and income gains have been slowing on a year-over-year basis for the past few quarters.

Civilian employment rose 3.8 percent between October 1985 and October 1986, a slightly slower pace than the 4 to 5 percent rate of growth exhibited during the summer. The labor force grew 2.7 percent during the same period. Unemployment edged up by 27,000 between September and October, however, it was down 10.8 percent over the year. In October, California's unemployment rate stood at 6.6 percent compared to a rate of 7.0 percent for the U.S.

The recent revision of the interim series of nonagricultural wage and salary employment shows California's economy still outperforms the rest of the Nation. The approximately 90,000 person upward revision in the series resulted in an October employment level of 11,405,000, which represents a 2.6 percent year-over-year growth rate. This compares to a 2.2 percent change during the same period for the U.S. The revision was one of the regular quarterly benchmarks of the establishment series, which ties employment data to the most up-to-date information received from employer reports. This recent benchmark incorporated changes for the past two quarters. Most of the increases were in construction, retail trade and services.

### NONFARM WAGE & SALARY EMPLOYMENT GROWTH CALIFORNIA AND UNITED STATES 1986 (Year/Year Percent Change)

| Month     | California | United States |
|-----------|------------|---------------|
| January   | 3.0        | 3.0           |
| February  | 3.0        | 2.9           |
| March     | 3.1        | 2.7           |
| April     | 3.1        | 2.7           |
| May       | 2.9        | 2.6           |
| June      | 3.0        | 2.4           |
| July      | 2.9        | 2.5           |
| August    | 2.6        | 2.4           |
| September | 2.6        | 2.3           |
| October   | 2.6        | 2.2           |

Individual employment sectors show various rates of growth. The sharp contrast of the nearly 6 percent growth in construction and finance to the year-over-year declines in mining, manufacturing, and transportation-utilities, illustrates some of the dichotomy which currently exists in the economy. Construction employment grew 5.9 percent from October 1985 to October 1986. Construction has been a major source of strength in 1986 for California. How much longer it can provide this kind of support for the economy remains a question, though. High vacancy rates in commercial building along with rapidly rising home prices and reaction to tax law revisions indicate a slowdown could be felt soon in the construction industry.

The finance-insurance-real estate sector also made strong gains in October. It was up 5.7 percent from a year earlier. Services, wholesale and retail trade, and government all showed moderate increases.



Total manufacturing employment was flat over the year. Nondurable goods showed a slight improvement, but durable goods employment was down. Aerospace employment has been flat for the last five months.

Personal income growth moderated during the third quarter, reflecting growth patterns in employment. Total personal income is now estimated at a \$455.8 billion seasonally adjusted annual rate for the period, a 4.8 percent increase from a year earlier.

Average wages were up from the third quarter of 1985 in all sectors except for farm and mining. Most notable was the

nearly 30 percent increase in average wages in the finance sector. The commissions earned by stock brokers during the quarter as a result of the high volume of trading that has taken place, boosted average wages in finance.

Total wages and salaries were up 4.2 percent from the second quarter, and were 5.6 percent higher than third quarter of 1985. Transfer payments, another large component of personal income, increased 2.6 percent over the year. Gains in transfer payments have fallen dramatically over the past three years. This has been due to the disinflationary phase currently under way. Many benefits have been held to

CALIFORNIA PERSONAL INCOME  
(Billion \$)

| <u>Sector</u>                               | <u>1986<br/>Qtr III</u> | <u>1985<br/>Qtr III</u> | <u>Percent Change<br/>Qtr III 1985-<br/>Qtr III 1986</u> |
|---------------------------------------------|-------------------------|-------------------------|----------------------------------------------------------|
| Total Wages & Salaries                      | 271.4                   | 250.3                   | 5.6                                                      |
| Farm                                        | 1.6                     | 1.6                     | -0.6                                                     |
| Mining                                      | 1.4                     | 1.8                     | -18.4                                                    |
| Construction                                | 14.1                    | 13.0                    | 4.3                                                      |
| Manufacturing                               | 56.0                    | 53.3                    | 5.1                                                      |
| TCU                                         | 16.7                    | 15.7                    | 6.5                                                      |
| Trade                                       | 46.4                    | 42.9                    | 8.3                                                      |
| Finance                                     | 22.3                    | 18.2                    | 23.0                                                     |
| Services                                    | 60.3                    | 55.7                    | 8.4                                                      |
| Government                                  | 50.3                    | 46.4                    | 8.3                                                      |
| Other                                       | 2.2                     | 1.8                     | 19.5                                                     |
| Other Labor Income                          | 27.9                    | 25.5                    | 6.1                                                      |
| Proprietors' Income                         | 39.1                    | 37.2                    | 2.5                                                      |
| Property Income                             | 76.2                    | 71.9                    | 4.5                                                      |
| Transfer Payments                           | 61.0                    | 57.3                    | 2.6                                                      |
| Less: Contributions for<br>Social Insurance | 19.9                    | 17.9                    | 9.1                                                      |
| Plus: Residence Adjustment                  | 0.1                     | 0.1                     | --                                                       |
| Total: Personal Income                      | 455.8                   | 423.5                   | 4.8                                                      |

only small increases with low rates of inflation.

Nonfarm proprietors' income was up 9.5 percent, while farm proprietors actually saw a drop in income. The impact of falling interest rates is evident in the interest income series. Interest income has declined steadily since the fourth quarter of last year, and was up only 0.1 percent from third quarter 1986.

Overall, price increases continue to be moderate in the State. The California Consumer Price Index rose 3.0 percent between October 1985 and October 1986. The year-over-year rise in the national index was 1.5 percent. This difference may not be great as it appears, however. Regional indexes, for instance, and local economic conditions can influence such things as rents, housing costs and other service categories.

With the most recent data, for example, residential rents and homeowners' costs were replaced by medical care costs as the most rapidly rising component of the index. Residential rents and homeowners' costs increased at a more moderate rate than what has prevailed for the past couple of years. Medical care costs were up between 7 and 10 percent on a year-over-year basis in October.

Food prices, which have been rising at a rate of 1 to 3 percent for the last two years, have also accelerated. In October, food prices rose between 3 and 6 percent for the regions reported in California.

Apparel prices remain relatively flat, with a mix of declines and increases from month to month. In October apparel prices were up 3.6 percent in San Francisco and down 0.3 percent in Los Angeles from year-earlier levels. The September index for San Diego showed a 2.7 percent increase. These erratic patterns are characteristic of trends in apparel prices, which are subject to pronounced seasonal patterns and market demand.

Transportation prices, again, declined across the board in October. Gasoline

prices for the Nation as a whole were reported down 30 percent from last October.

On the construction front, there are mixed trends. Residential construction activity is still strong, but nonresidential activity has declined, and no surge is expected for the rest of the year. Overall, housing unit authorizations have remained fairly constant at a good pace throughout the year. Housing unit authorizations were at a 281,300 unit rate for September. The year-over-year decline shown in the table on page 9 is misleading. Last September was exceptionally high due to the large number of permits issued for multi-family unit construction before the imposition of stricter building codes relating to handicap access regulations.

Multiple unit construction has weakened somewhat this year, with greater strength in single family units as mortgage rates decline. In September, 53 percent of the private residential housing unit authorizations were for single units, and 47 percent for multi-family units.

Nonresidential construction, as expected, declined from August to September, and was down 23 percent from September 1985. To the extent that the slowdown has been related to tax law changes, the retrenchment may continue until excess space is worked off. Commercial construction declined 40 percent, and accounted for only about a third of total nonresidential construction in September. It normally accounts for about half. This was, at least in part, a response to high commercial vacancy rates in both downtown and suburban areas in the State. Vacancy rates didn't change much in the third quarter, and remain above 20 percent in most areas.

Industrial and miscellaneous nonresidential construction also declined during the month. Alterations and additions, the only category to register any growth, was up 2.2 percent, and accounted for 28 percent of total nonresidential activity.

Retail sales growth in the third quarter was slower than in the third quarter of 1985. Data for September, however, indicate a pick-up from the lackluster performance over the summer. California retail sales totaled \$15.6 billion for the month, up 8.1 percent from last September. In the U.S. as a whole, retail sales grew 7.5 percent over the year. California retail sales accounted for 12.2 percent of all retail sales in the Nation.

Auto sales were responsible for a large part of the pick-up in September.

New auto registrations, a proxy for new car sales, increased 19.1 percent from the year-earlier level. New registrations settled back to a 7.9 percent year-over-year rate of growth in October

after exceptionally low financing rate incentive programs were ended. Car sales also helped boost retail sales in the rest of the country in September. However, there are concerns that retail sales may be somewhat softer in California in the fourth quarter than in the U.S. as a whole. The unusually warm weather in California this fall has deterred many consumers from purchasing winter apparel and other cold-weather goods, which retailers can normally count on.

The economic outlook for California in 1987 calls for moderate growth in both employment and income. The latest forecast from the Department of finance will be summarized in the January 1987 issue of California Economic Indicators.

EMPLOYMENT  
(Seasonally Adjusted)

|                                                                      | 1986     |          |          |          | 1985     | Percent<br>Change<br>Oct 1985-<br>Oct 1986 |
|----------------------------------------------------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                                                                      | Oct      | Sep      | Aug      | Jul      | Oct      |                                            |
| Civilian Employment (000)                                            | 12,537   | 12,570   | 12,451   | 12,390   | 12,076   | 3.8                                        |
| Unemployment (000)                                                   | 887      | 860      | 883      | 940      | 994      | -10.8                                      |
| Unemployment rate                                                    | 6.6      | 6.4      | 6.6      | 7.1      | 7.6      | --                                         |
| Nonagricultural wage<br>and salary<br>employment <sup>a/</sup> (000) | 11,404.8 | 11,385.0 | 11,355.9 | 11,345.9 | 11,117.4 | 2.6                                        |
| Mining                                                               | 40.9     | 40.8     | 40.7     | 40.5     | 48.3     | -15.3                                      |
| Construction                                                         | 536.3    | 536.1    | 533.7    | 537.9    | 506.4    | 5.9                                        |
| Manufacturing                                                        | 2,066.1  | 2,061.5  | 2,059.1  | 2,061.7  | 2,065.3  | --                                         |
| Aerospace <sup>b/</sup>                                              | n.a.     | 759.3    | 760.7    | 760.2    | 754.6    | --                                         |
| Transportation and<br>Public utilities                               | 585.6    | 585.0    | 582.8    | 582.5    | 586.1    | -0.1                                       |
| Trade                                                                | 2,754.5  | 2,738.8  | 2,737.8  | 2,735.8  | 2,671.9  | 3.1                                        |
| Finance, insurance<br>and real estate                                | 773.3    | 773.0    | 772.4    | 770.8    | 731.8    | 5.7                                        |
| Services                                                             | 2,794.2  | 2,789.8  | 2,788.5  | 2,780.1  | 2,692.9  | 3.8                                        |
| Government                                                           | 1,853.9  | 1,860.0  | 1,840.9  | 1,836.6  | 1,814.7  | 2.2                                        |
| Federal                                                              | 343.1    | 341.5    | 338.5    | 336.6    | 346.8    | -1.1                                       |
| State & local                                                        | 1,510.8  | 1,518.5  | 1,502.4  | 1,500.0  | 1,467.9  | 2.9                                        |

<sup>a/</sup> Interim series of wage and salary workers. This unofficial series is adjusted for the latest tabulations of unemployment insurance coverage and approximates what the official data will be when estimates are updated at year end.

<sup>b/</sup> The Interim Series does not give a breakdown for aerospace employment. These values are from the EDD official employment series, and are not seasonally adjusted.

HOURS AND EARNINGS IN MANUFACTURING

|                         | 1986     |          |          |          | 1985     | Percent<br>Change<br>Oct 1985-<br>Oct 1986 |
|-------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                         | Oct      | Sep      | Aug      | Jul      | Oct      |                                            |
| Average weekly hours    | 40.1     | 40.3     | 40.1     | 39.8     | 40.4     | -0.7                                       |
| Average weekly earnings | \$413.43 | \$420.73 | \$417.84 | \$415.49 | \$411.27 | 0.5                                        |
| Average hourly earnings | \$10.31  | \$10.44  | \$10.42  | \$10.31  | \$10.18  | 1.3                                        |

TRADE  
(Seasonally Adjusted)

|                                    | 1986       |            |            |            | 1985       | Percent<br>Change<br>Oct 1985-<br>Oct 1986 |
|------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                    | <u>Oct</u> | <u>Sep</u> | <u>Aug</u> | <u>Jul</u> | <u>Oct</u> |                                            |
| Retail sales (millions)            | n.a.       | \$15,587   | \$14,992   | \$14,848   | \$14,317   | --                                         |
| New auto registrations<br>(number) | 147,640    | 148,122    | 112,417    | 123,537    | 136,851    | 7.9                                        |

n.a. Not available.

CONSUMER PRICE INDEX  
(1967 = 100)

|                                           | 1986       |            |            |            | 1985       | Percent<br>Change<br>Oct 1985-<br>Oct 1986 |
|-------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                           | <u>Oct</u> | <u>Sep</u> | <u>Aug</u> | <u>Jul</u> | <u>Oct</u> |                                            |
| All Urban Series                          |            |            |            |            |            |                                            |
| California Average                        | 344.1      | --         | 339.8      | --         | 334.0      | 3.0                                        |
| San Francisco                             | 347.7      | --         | 345.5      | --         | 336.7      | 3.3                                        |
| Los Angeles                               | 336.2      | 334.6      | 330.9      | 330.9      | 326.1      | 3.1                                        |
| San Diego                                 | --         | 385.9      | --         | 383.1      | --         | --                                         |
| Wage Earner and Clerical<br>Worker Series |            |            |            |            |            |                                            |
| California Average                        | 333.0      | --         | 329.1      | --         | 324.4      | 2.7                                        |
| San Francisco                             | 341.1      | --         | 339.0      | --         | 331.0      | 3.1                                        |
| Los Angeles                               | 328.3      | 326.8      | 323.5      | 323.8      | 320.0      | 2.6                                        |
| San Diego                                 | --         | 347.4      | --         | 345.0      | --         | --                                         |

PRODUCTION

|                                                              | 1986       |            |            |            | 1985       |
|--------------------------------------------------------------|------------|------------|------------|------------|------------|
|                                                              | <u>Sep</u> | <u>Aug</u> | <u>Jul</u> | <u>Jun</u> | <u>Sep</u> |
| Petroleum (000 barrels daily)                                | n.a.       | n.a.       | 1,107.1    | 1,119.5    | 1,165.7    |
| Portland cement (000 short tons)                             | 854.9      | 856.9      | 894.4      | 880.2      | 760.6      |
| Selected redwood and whitewood<br>mill production (mil. FBM) | 76.0       | 64.9       | 75.3       | 69.9       | 63.5       |

n.a. Not available

# CONSTRUCTION

|                                                                             | 1986    |         |         |         | 1985    | Percent<br>Change<br>Sep 1985-<br>Sep 1986 |
|-----------------------------------------------------------------------------|---------|---------|---------|---------|---------|--------------------------------------------|
|                                                                             | Sep     | Aug     | Jul     | Jun     | Sep     |                                            |
| Private Residential<br>Housing Units<br>Authorized (000) <sup>a/</sup>      | 281.3   | 255.4   | 279.2   | 256.7   | 460.1   | -38.9                                      |
| Single Units                                                                | 148.5   | 115.9   | 149.9   | 142.9   | 117.0   | 26.9                                       |
| Multiple Units                                                              | 132.8   | 139.5   | 129.3   | 113.8   | 343.1   | -61.3                                      |
| Residential Building<br>Authorized Valuation<br>(millions) <sup>b/</sup>    | \$1,857 | \$1,873 | \$1,880 | \$1,704 | \$2,073 | -10.4                                      |
| Nonresidential Building<br>Authorized Valuation<br>(millions) <sup>b/</sup> | \$892   | \$1,109 | \$1,173 | \$1,042 | \$1,143 | -30.0                                      |
| Nonresidential Building<br>Authorized Valuation<br>(millions) <sup>c/</sup> | \$989   | \$1,183 | \$1,152 | \$1,214 | \$1,277 | -22.6                                      |
| Commercial                                                                  | \$366   | \$530   | \$502   | \$491   | \$608   | -39.8                                      |
| Industrial                                                                  | \$176   | \$183   | \$175   | \$187   | \$189   | -6.9                                       |
| Other                                                                       | \$174   | \$188   | \$165   | \$172   | \$213   | -18.3                                      |
| Alterations & Additions                                                     | \$273   | \$282   | \$310   | \$365   | \$267   | 2.2                                        |

<sup>a/</sup> Seasonally adjusted annual rate.

<sup>b/</sup> Seasonally adjusted.

<sup>c/</sup> Not adjusted for seasonal variation.

## VACANCY RATES FOR SEPTEMBER 1986 (Percent)

|                               | Commercial |          |          | Industrial |
|-------------------------------|------------|----------|----------|------------|
|                               | Total      | Downtown | Suburban |            |
| Northern & Central California |            |          |          | 8.4        |
| Oakland - East Bay            | 26.2       | 18.4     | 29.0     |            |
| Sacramento                    | 23.5       | 13.5     | 27.0     |            |
| San Francisco                 | 17.5       | 16.0     | 19.9     |            |
| San Jose                      | 26.0       | 19.8     | 27.4     |            |
| Southern California           |            |          |          | 5.6        |
| Los Angeles                   | 17.5       | 17.5     | 17.5     |            |
| Orange County                 | 23.0       | n.a.     | n.a.     |            |
| San Diego                     | 24.1       | 18.0     | 28.0     |            |
| National Average              | 21.5       | 16.7     | 23.5     | 5.5        |



## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are production worker man-hours, insured unemployment, manufacturing employment, and taxable sales. These series are discussed in the technical note below.

### TECHNICAL NOTE

Whenever appropriate, data used in the charts have been seasonally adjusted. The series on average weekly hours of production workers in manufacturing and production worker man-hours are adjusted by the Bureau of Labor Statistics method. Other series have been adjusted by the Bureau of the Census (Shiskin) method. Persons interested in a detailed description of these methods are referred to the U.S. Department of Labor, Bureau of Labor Statistics, the BLS Seasonal Factor Method (1964); and the U.S. Department of Commerce, Bureau of the Census, Technical Paper No. 15, The X-11 Variant of the Census Method II. Seasonal Adjustment Program (November 1965).

Under the Census Bureau seasonal method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

#### Production Worker Man-Hours

This series is a substitute for the man-hours in nonagricultural establishments series used in the Census Bureau's publication, Business Cycle

Developments. It is the cross product of average weekly hours of production workers in manufacturing and manufacturing employment. Workweek data are a leading indicator. Manufacturing employment appears to be a coincident indicator, although at times it seems to lead economic downturns. Because of this, the man-hours series has been classified in the present publication as a leading indicator.

#### Insured Unemployment

The series on total insured unemployment is being used rather than the insured unemployment rate included in the Census Bureau's indicator list. The insured rate is available only with a lag of nine months, which precludes its usefulness as a current indicator.

#### Manufacturing Employment

This series is also an addition to the Census Bureau indicator list. It was used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

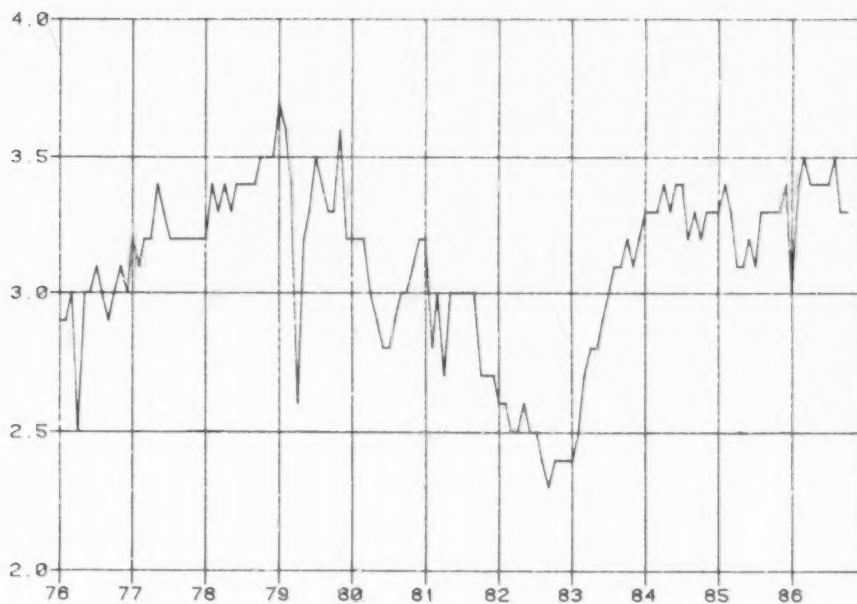
#### Taxable Sales

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is therefore a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.



# AVERAGE OVERTIME HOURS, MANUFACTURING (Seasonally Adjusted)



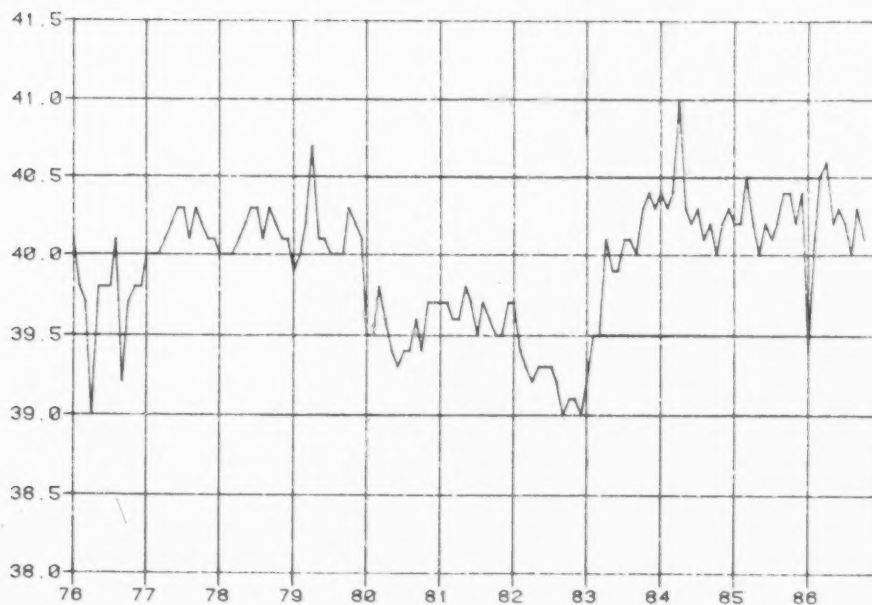
1985

|     |       |
|-----|-------|
| Jul | 138.9 |
| Aug | 140.3 |
| Sep | 139.5 |
| Oct | 142.2 |
| Nov | 141.8 |
| Dec | 142.0 |

1986

|     |     |
|-----|-----|
| Jan | 3.0 |
| Feb | 3.4 |
| Mar | 3.5 |
| Apr | 3.4 |
| May | 3.4 |
| Jun | 3.4 |
| Jul | 3.4 |
| Aug | 3.5 |
| Sep | 3.3 |
| Oct | 3.3 |

# AVERAGE WEEKLY HOURS, MANUFACTURING (Seasonally Adjusted)



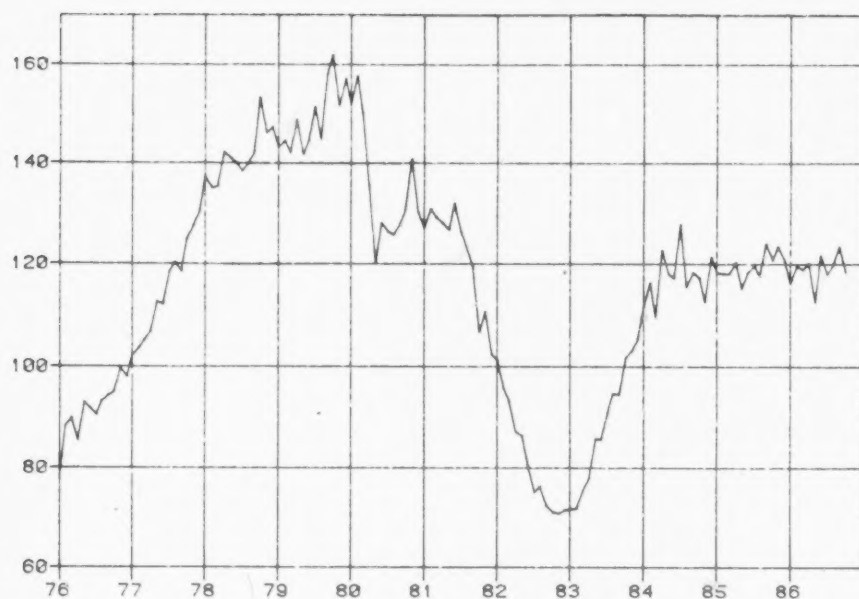
1985

|     |      |
|-----|------|
| Jul | 40.1 |
| Aug | 40.2 |
| Sep | 40.4 |
| Oct | 40.4 |
| Nov | 40.2 |
| Dec | 40.4 |

1986

|     |      |
|-----|------|
| Jan | 39.4 |
| Feb | 40.1 |
| Mar | 40.5 |
| Apr | 40.6 |
| May | 40.2 |
| Jun | 40.3 |
| Jul | 40.2 |
| Aug | 40.0 |
| Sep | 40.3 |
| Oct | 40.1 |

HELP WANTED ADS, LOS ANGELES  
(Thousands, Seasonally Adjusted)



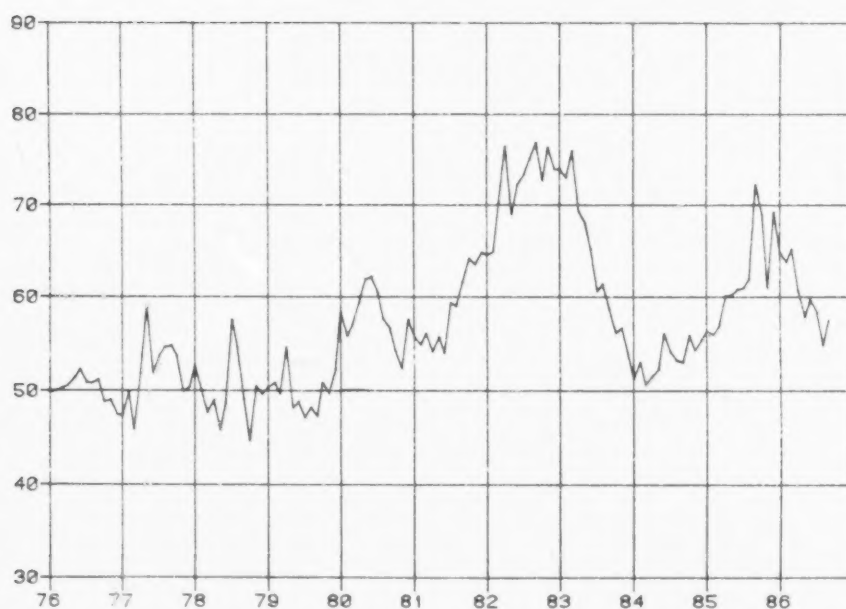
1985

|     |       |
|-----|-------|
| Jul | 119.7 |
| Aug | 117.7 |
| Sep | 123.9 |
| Oct | 120.8 |
| Nov | 123.5 |
| Dec | 120.6 |

1986

|     |       |
|-----|-------|
| Jan | 116.1 |
| Feb | 120.0 |
| Mar | 118.7 |
| Apr | 120.1 |
| May | 112.3 |
| Jun | 121.7 |
| Jul | 117.9 |
| Aug | 119.9 |
| Sep | 123.5 |
| Oct | 118.3 |
| Nov | 128.6 |

INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE  
(Weekly Average in Thousands, Seasonally Adjusted)



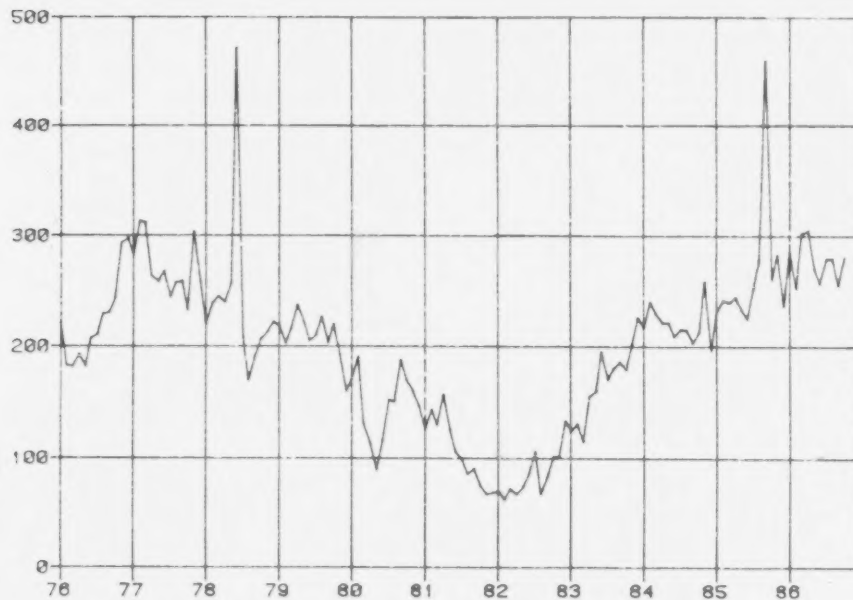
1985

|     |      |
|-----|------|
| Jul | 61.1 |
| Aug | 61.9 |
| Sep | 72.1 |
| Oct | 68.9 |
| Nov | 61.1 |
| Dec | 69.2 |

1986

|     |      |
|-----|------|
| Jan | 64.8 |
| Feb | 63.7 |
| Mar | 65.2 |
| Apr | 60.6 |
| May | 57.9 |
| Jun | 59.7 |
| Jul | 58.4 |
| Aug | 54.9 |
| Sep | 57.6 |

**PRIVATE HOUSING UNITS AUTHORIZED**  
(Seasonally Adjusted Annual Rate, in Thousands)



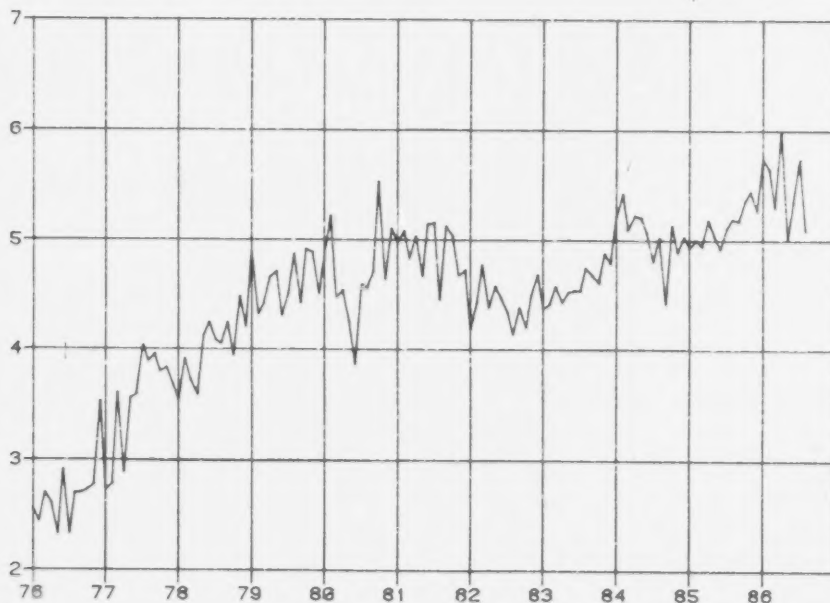
1985

|     |       |
|-----|-------|
| Jul | 242.0 |
| Aug | 275.6 |
| Sep | 455.6 |
| Oct | 244.7 |
| Nov | 245.7 |
| Dec | 219.6 |

1986

|     |       |
|-----|-------|
| Jan | 279.0 |
| Feb | 252.5 |
| Mar | 302.2 |
| Apr | 304.8 |
| May | 269.9 |
| Jun | 256.7 |
| Jul | 279.2 |
| Aug | 255.4 |
| Sep | 281.3 |

**NEW BUSINESS INCORPORATIONS**  
(Thousands, Seasonally Adjusted)



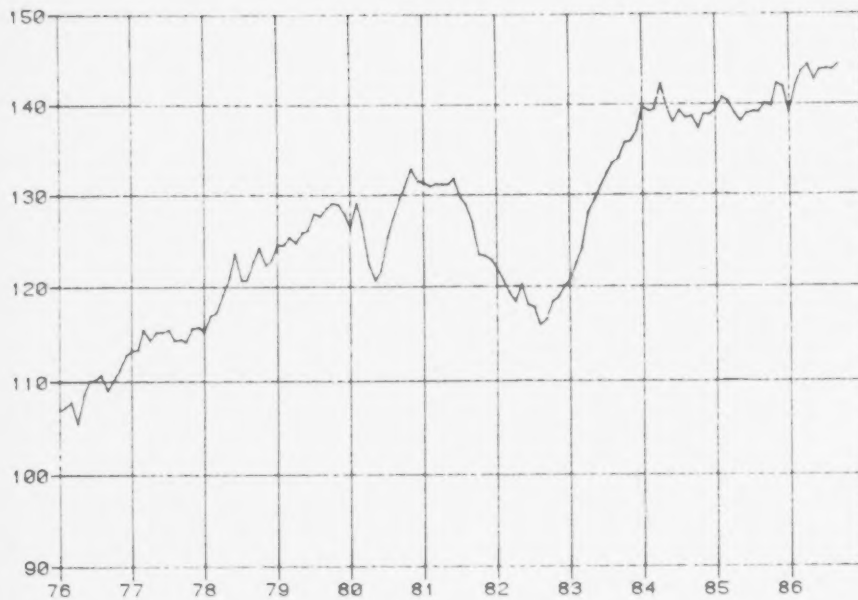
1985

|     |       |
|-----|-------|
| Apr | 5,184 |
| May | 5,037 |
| Jun | 4,914 |
| Jul | 5,109 |
| Aug | 5,195 |
| Sep | 5,176 |
| Oct | 5,366 |
| Nov | 5,446 |
| Dec | 5,277 |

1986

|     |       |
|-----|-------|
| Jan | 5,740 |
| Feb | 5,642 |
| Mar | 5,302 |
| Apr | 5,981 |
| May | 5,007 |
| Jun | 5,338 |
| Jul | 5,740 |

**CALIFORNIA INDEX OF LEADING INDICATORS**  
(1972 = 100)



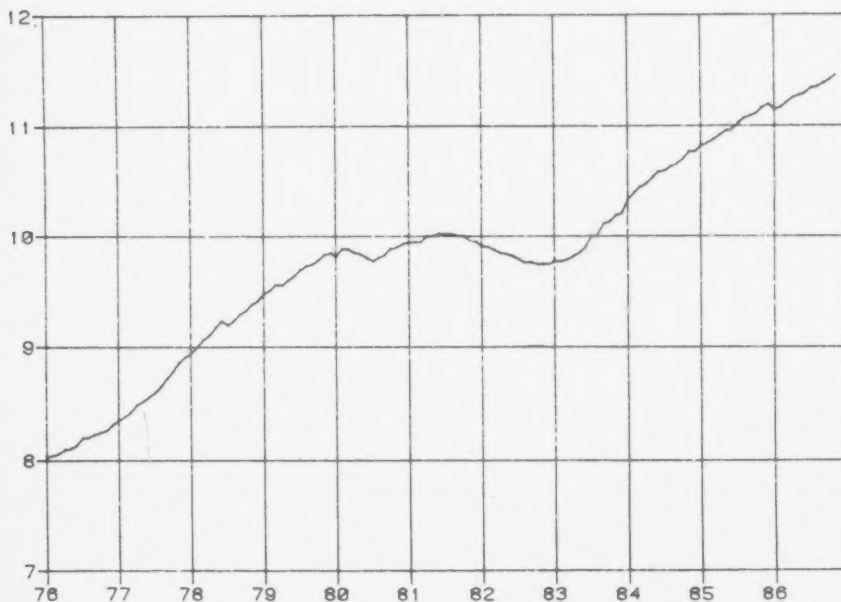
1985

|     |       |
|-----|-------|
| Apr | 138.9 |
| May | 138.0 |
| Jun | 138.9 |
| Jul | 139.1 |
| Aug | 139.0 |
| Sep | 140.0 |
| Oct | 139.7 |
| Nov | 142.2 |
| Dec | 141.8 |

1986

|     |       |
|-----|-------|
| Jan | 139.0 |
| Feb | 142.0 |
| Mar | 143.6 |
| Apr | 144.4 |
| May | 142.7 |
| Jun | 144.0 |
| Jul | 143.9 |
| Aug | 143.8 |
| Sep | 144.4 |

**NONAGRICULTURAL EMPLOYMENT**  
(Millions, Seasonally Adjusted)



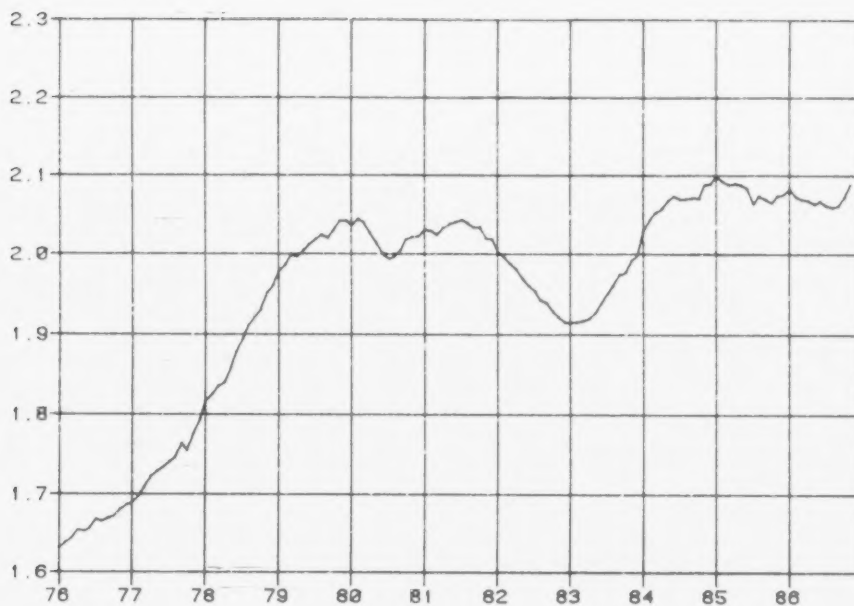
1985 (Thousands)

|     |        |
|-----|--------|
| Apr | 10,915 |
| May | 10,957 |
| Jun | 10,962 |
| Jul | 11,029 |
| Aug | 11,072 |
| Sep | 11,092 |
| Oct | 11,117 |
| Nov | 11,166 |
| Dec | 11,202 |

1986

|     |        |
|-----|--------|
| Jan | 11,149 |
| Feb | 11,170 |
| Mar | 11,204 |
| Apr | 11,254 |
| May | 11,276 |
| Jun | 11,295 |
| Jul | 11,346 |
| Aug | 11,356 |
| Sep | 11,385 |
| Oct | 11,419 |
| Nov | 11,456 |

**MANUFACTURING EMPLOYMENT**  
(Millions, Seasonally Adjusted)



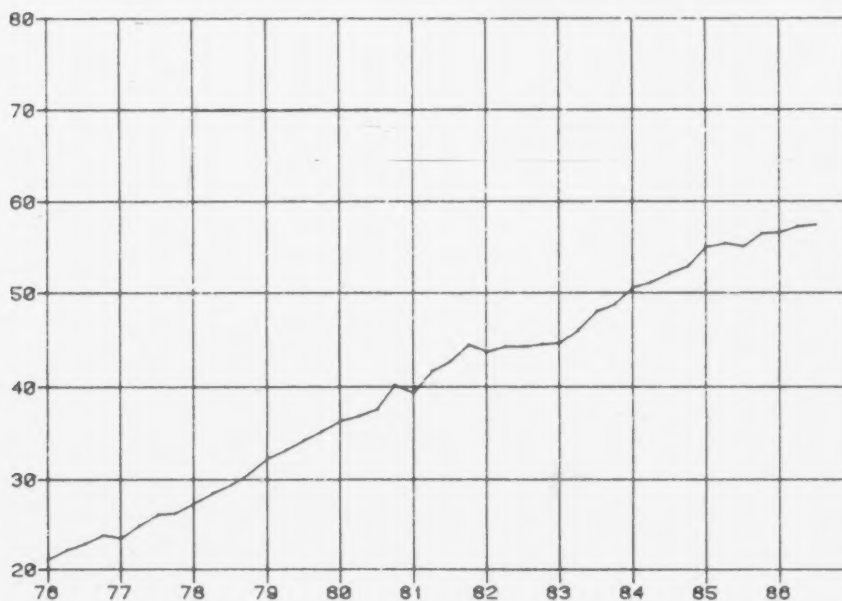
1985 (Thousands)

|     |       |
|-----|-------|
| Apr | 2,090 |
| May | 2,088 |
| Jun | 2,085 |
| Jul | 2,064 |
| Aug | 2,074 |
| Sep | 2,070 |
| Oct | 2,065 |
| Nov | 2,074 |
| Dec | 2,076 |

1986

|     |       |
|-----|-------|
| Jan | 2,083 |
| Feb | 2,074 |
| Mar | 2,070 |
| Apr | 2,068 |
| May | 2,064 |
| Jun | 2,068 |
| Jul | 2,062 |
| Aug | 2,059 |
| Sep | 2,062 |
| Oct | 2,086 |
| Nov | 2,090 |

**WAGES & SALARIES FROM  
MINING, CONSTRUCTION & MANUFACTURING**  
(Billion \$, Seasonally Adjusted)



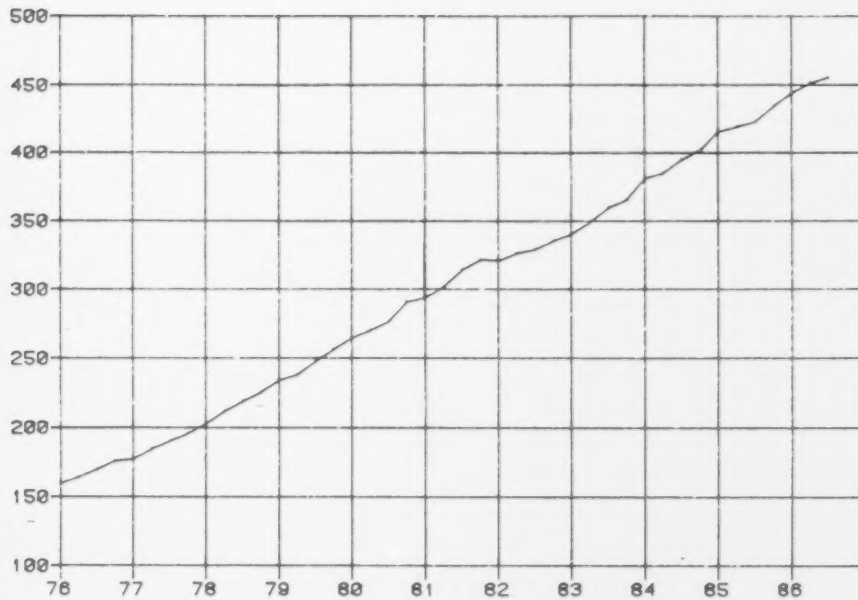
1985 (Million \$)

|         |        |
|---------|--------|
| Qtr I   | 67,608 |
| Qtr II  | 68,157 |
| Qtr III | 68,016 |
| Qtr IV  | 69,950 |

1986

|         |        |
|---------|--------|
| Qtr I   | 69,896 |
| Qtr II  | 71,420 |
| Qtr III | 71,532 |

**PERSONAL INCOME**  
(Billion \$, Seasonally Adjusted)



1985 (Million \$)

Qtr I 416,008

Qtr II 419,834

Qtr III 423,514

Qtr IV 434,910

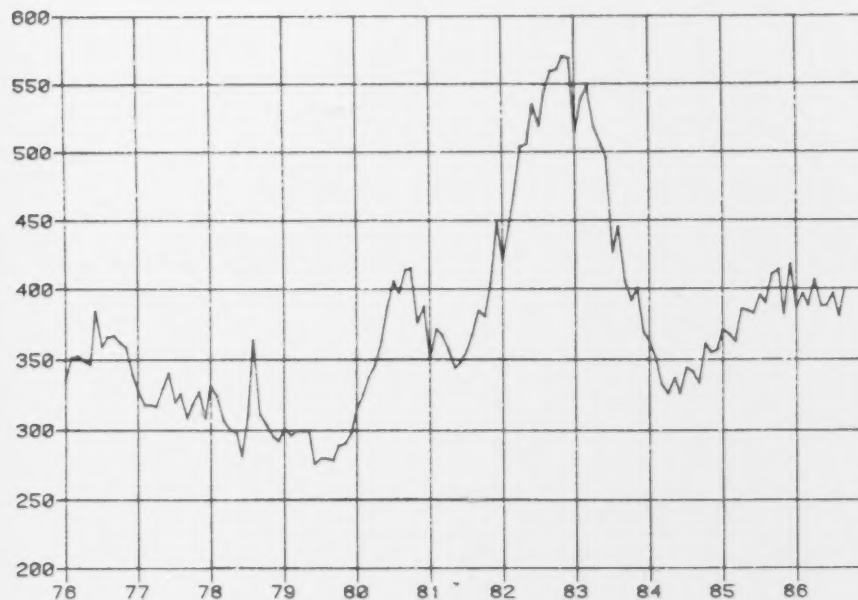
1986

Qtr I 444,013

Qtr II 451,674

QTR III 455,760

**INSURED UNEMPLOYMENT, AVERAGE WEEKS CLAIMED**  
(Thousands, Seasonally Adjusted)



1985

Jul 396

Aug 390

Sep 411

Oct 414

Nov 382

Dec 418

1986

Jan 387

Feb 397

Mar 388

Apr 407

May 388

Jun 388

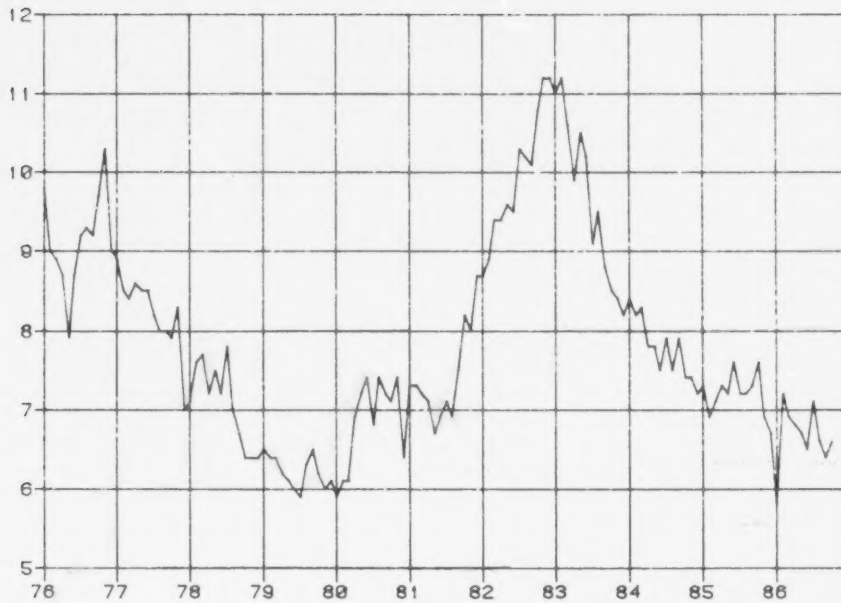
Jul 397

Aug 381

Sep 401



# UNEMPLOYMENT RATE (Percent)



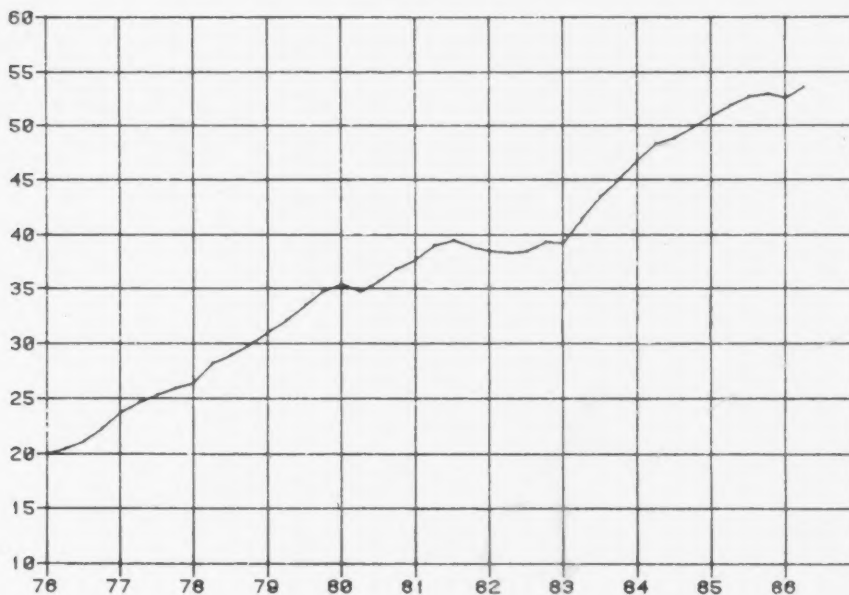
## 1985

|     |     |
|-----|-----|
| Jul | 7.3 |
| Aug | 7.1 |
| Sep | 7.1 |
| Oct | 7.1 |
| Nov | 7.0 |
| Dec | 6.9 |

## 1986

|     |     |
|-----|-----|
| Jan | 6.7 |
| Feb | 7.3 |
| Mar | 7.2 |
| Apr | 7.1 |
| May | 7.3 |
| Jun | 7.1 |
| Jul | 7.1 |
| Aug | 6.6 |
| Sep | 6.4 |
| Oct | 6.6 |

# TAXABLE SALES (Billion \$, Seasonally Adjusted)



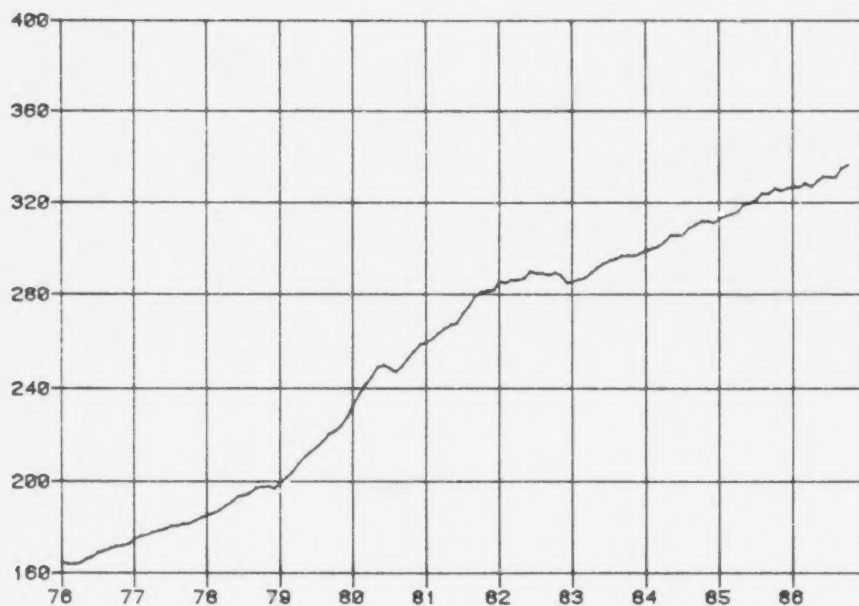
## 1985 (Million \$)

|         |        |
|---------|--------|
| Qtr I   | 50,926 |
| Qtr II  | 51,888 |
| Qtr III | 52,707 |
| Qtr IV  | 52,950 |

## 1986

|       |        |
|-------|--------|
| Qtr I | 52,553 |
| Qtr.  | 53,574 |

CONSUMER PRICE INDEX, LOS ANGELES <sup>a/</sup>  
(1967 = 100)



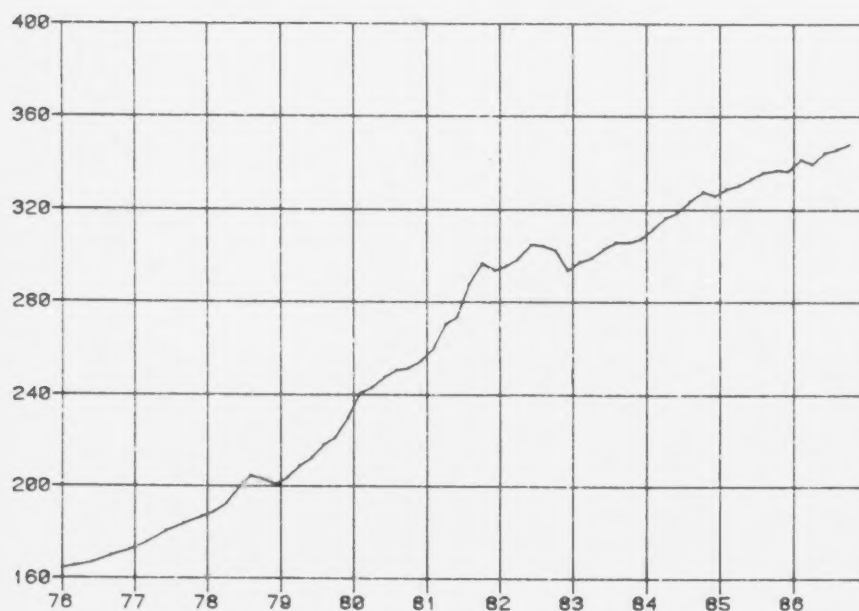
1985

|     |       |
|-----|-------|
| Jun | 319.3 |
| Jul | 321.3 |
| Aug | 323.9 |
| Sep | 323.8 |
| Oct | 366.1 |
| Nov | 325.0 |
| Dec | 326.1 |

1986

|     |       |
|-----|-------|
| Jan | 326.8 |
| Feb | 326.6 |
| Mar | 328.2 |
| Apr | 326.8 |
| May | 329.4 |
| Jun | 331.3 |
| Jul | 330.9 |
| Aug | 330.9 |
| Sep | 334.6 |
| Oct | 336.2 |

CONSUMER PRICE INDEX, SAN FRANCISCO <sup>a/</sup>  
(1967 = 100)



1985

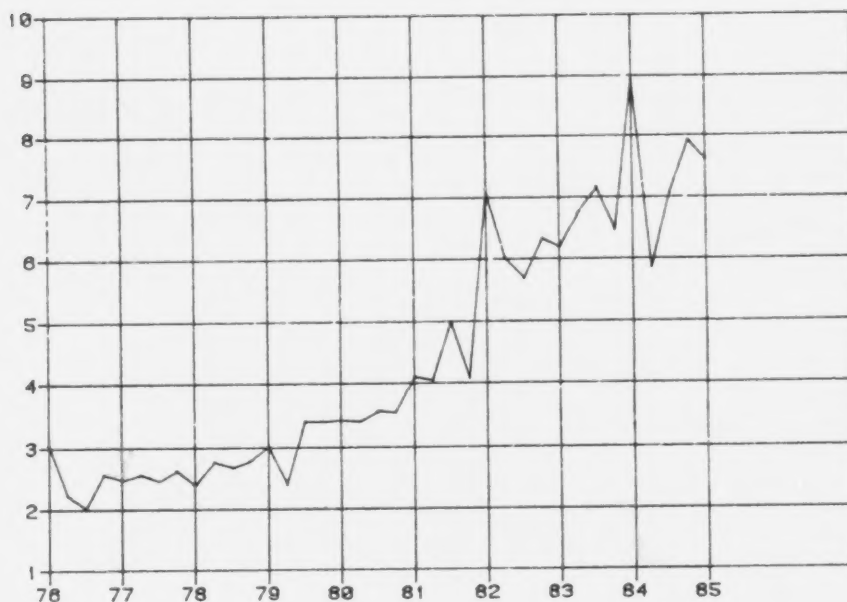
|     |       |
|-----|-------|
| Jun | 333.2 |
| Jul | --    |
| Aug | 335.8 |
| Sep | --    |
| Oct | 336.7 |
| Nov | --    |
| Dec | 336.4 |

1986

|     |       |
|-----|-------|
| Jan | --    |
| Feb | 341.1 |
| Mar | --    |
| Apr | 339.3 |
| May | --    |
| Jun | 344.0 |
| Jul | --    |
| Aug | 345.5 |
| Sep | --    |
| Oct | 347.7 |

<sup>a/</sup> All Urban Series.

### DOD PRIME CONTRACTS (Billion \$)



1983 (Million \$)

Qtr I 6,106

Qtr II 6,853

Qtr III 7,171

Qtr IV 6,449

1984

Qtr I 8,410

Qtr II 6,643

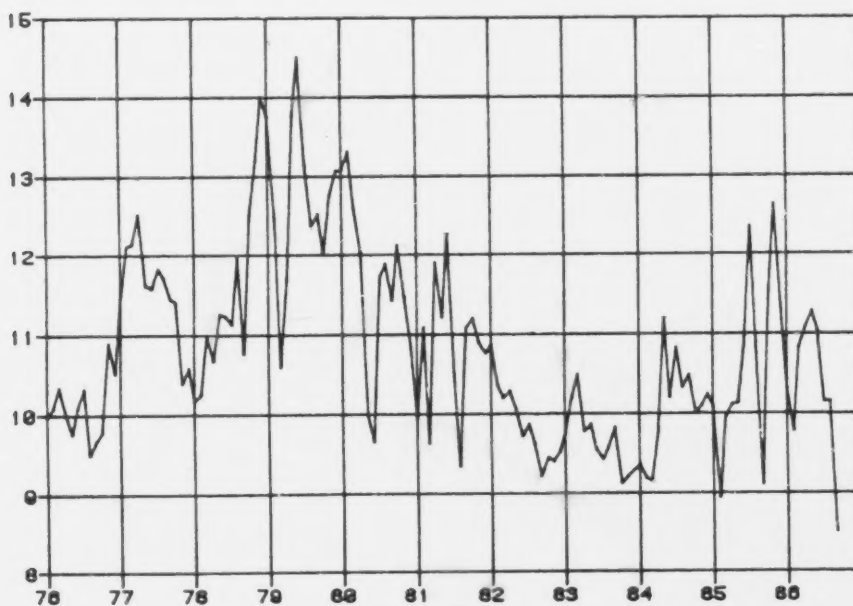
Qtr III 7,079

Qtr IV 7,918

1985

Qtr I 7,592

### ELECTRICITY PRODUCTION (Billion Kwh)



1985 (Million Kwh)

Apr 10,111

May 10,133

Jun 10,819

Jul 12,356

Aug 10,890

Sep 9,115

Oct 11,539

Nov 12,639

Dec 11,363

1986

Jan 10,302

Feb 9,783

Mar 10,830

Apr 11,069

May 11,275

Jun 11,036

Jul 10,149

Aug 10,149

Sep 8,500

## CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national events of general interest have also been included.

| <u>1980</u> |                                                                                  | <u>1980--Continued</u> |                                                                                           |
|-------------|----------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------|
| February 25 | Prime rate raised to 16-1/2 percent.                                             | April 28               | FHA mortgages reduced to 13 percent.                                                      |
| February 27 | Ceilings on interest rates for government backed mortgages raised to 13 percent. |                        | Prime rate reduced to 18-1/2 percent.                                                     |
|             |                                                                                  | May 5                  | Prime rate reduced to 18 percent.                                                         |
| February 29 | Prime rate raised to 16-3/4 percent.                                             | May 7                  | Prime rate reduced to 17 percent.                                                         |
| March 4     | Prime rate raised to 17-1/4 percent.                                             | May 8                  | Discount rate surcharge reimposed.                                                        |
| March 7     | Prime rate raised to 17-3/4 percent.                                             | May 12                 | Prime rate reduced to 16-1/2 percent.                                                     |
| March 13    | Prime rate raised to 18-1/4 percent.                                             | May 19                 | Prime rate reduced to 16 percent.                                                         |
| March 14    | Announcement of tighter fiscal policies.                                         | May 28                 | Discount rate lowered to 12 percent. Some conventional mortgage rates fell to 12 percent. |
| March 17    | Three percent discount rate surcharge imposed.                                   |                        |                                                                                           |
| March 18    | Prime rate raised to 19 percent.                                                 | June 25                | Carpenters strike in Northern California ended.                                           |
| April 2     | Prime rate raised to 20 percent.                                                 | July 3                 | ICC begins trucking industry deregulation.                                                |
| April 3     | FHA mortgages raised to 14 percent.                                              | July 21-<br>October 23 | Motion picture and television industry strike.                                            |
| April 20    | Prime rate reduced to 19-1/2 percent.                                            |                        |                                                                                           |

# CHRONOLOGY--Continued

## 1980--Continued

July 22 Prime rate reduced to 11 percent.

July 25 Prime rate reduced to 10-3/4 percent.

July 28 Discount rate reduced to 10 percent.

August 5 Prime rate raised to 11 percent.

August 27 Prime rate raised to 11-1/2 percent.

September 5 FHA mortgage interest rate raised from 11-1/2 to 12 percent.

September 12 California mortgage rate raised from 13-1/2 percent to 13-3/4 percent.

September 25 Pacific Southwest Airlines (PSA) pilots strike begins.

September 26 Discount rate raised from 10 to 11 percent. Prime rate raised from 12-1/2 percent to 12-3/4 percent.

October 2 Prime raised from 13 to 13-1/2 percent.

October 3 Prime raised to 14 percent.

October 15 AFTA workers return to work.

October 30 Prime raised from 14 to 14-1/2 percent.

November 7 Prime raised from 14-1/2 to 15-1/2 percent.

November 14 PSA pilots strike ends.

## 1980--Continued

November 17 Prime raised to 16 1/4 percent. Discount rate raised from 11 to 12 percent and surcharge imposed.

November 21 Prime raised to 17 percent.

November 28 Prime raised to 17-3/4 percent.

December 3 Prime raised from 17-3/4 to 18-1/2 percent.

December 5 Discount rate raised from 12 to 13 percent. Prime raised to 19 percent.

December 11 Prime raised to 20 percent.

December 17 Prime raised from 20 to 21 percent.

December 23 Prime lowered from 21 to 20-1/2 percent.

## 1981

January 1 Minimum wage raised from \$3.10 to \$3.35.

January 6 Prime lowered to 20 percent.

January 20 American hostages released from Iran.

January 20 Ronald Reagan inaugurated as 40th President of the U.S.

January 28 Deregulation of oil and gas industry announced, effective immediately.

January 29 Prime rate lowered to 19-1/2 percent from 20 percent.

# CHRONOLOGY--Continued

## 1981--Continued

|                 |                                                                                                 |
|-----------------|-------------------------------------------------------------------------------------------------|
| February 16     | General Motors and Ford rebate plans announced.                                                 |
| February 23     | Prime rate lowered to 18 percent.                                                               |
| March 2         | Prime rate lowered to 18-1/2 percent.                                                           |
| March 10        | Prime rate lowered to 18 percent.                                                               |
| March 16        | Prime rate lowered to 17-1/2 percent.                                                           |
| March 18        | Prime rate lowered to 17 percent.                                                               |
| March 26-June 8 | United mine workers strike.                                                                     |
| April 13        | Prime rate raised to 17-1/2 percent.                                                            |
| April 29        | Prime rate raised to 18 percent.                                                                |
| May 4           | Prime rate raised to 19 percent.                                                                |
| May 5           | Discount rate raised from 13 percent to 14 percent.                                             |
| May 8           | FHA-VA rate up to 15-1/2 percent from 14-1/2 percent.                                           |
| May 11          | Prime rate raised to 19-1/2 percent.                                                            |
| May 22          | Prime rate raised to 20 percent.                                                                |
| May 27          | OPEC fails to agree on a uniform price schedule. OPEC officials freeze prices at current level. |

## 1981--Continued

|                           |                                                                            |
|---------------------------|----------------------------------------------------------------------------|
| June 5                    | Dollar reaches highest level in international trading since December 1971. |
| July 8                    | Prime rate raised to 20-1/2 percent.                                       |
| August 3<br>Jan. 17, 1986 | Professional Air Traffic Controller's Organization strike.                 |
| August 14                 | President Reagan signs both the tax- and budget-cut bills into law.        |
| August 18                 | FHA-VA rate up to 16-1/2 percent from 15-1/2 percent.                      |
| September 1               | Prime rate lowered to 20 percent.                                          |
| September 21              | Prime rate lowered to 19-1/2 percent.                                      |
| September 22              | Fed surcharge cut to 3 percent from 4 percent.                             |
| October                   | Introduction of All Savers Certificates to stimulate savings.              |
| October 6                 | Prime rate lowered to 19 percent.                                          |
|                           | Egyptian President Sadat assassinated.                                     |
| October 13                | Prime rate lowered to 18 percent.                                          |
| October 30                | OPEC price set at \$34.00/barrel--the Saudi benchmark.                     |
| November 1                | Passbook interest rate raised 1/2 percent to 5-3/4 percent.                |

# CHRONOLOGY--Continued

## 1981--Continued

November 2 Fed discount rate cut from 14 percent to 13 percent.  
Prime rate lowered to 17-1/2 percent.

November 10 Prime rate lowered to 17 percent.

November 13 Prime rate lowered to 16-1/2 percent.  
FHA mortgage rate lowered to 15-1/2 percent.

November 16 Prime rate lowered to 16 percent.

November 17 Fed eliminates 2 percent surcharge. Discount rate unaffected.

December 1 Prime rate lowered to 15-1/2 percent.

December 4 Fed discount rate lowered from 13 percent to 12 percent.

December 12 Martial law imposed in Poland.

## 1982

January 22 Federal funds rate raised to 13-1/2 percent.

January 25 FHA mortgage rate increased from 15-1/2 percent to 16-1/2 percent.

January 27 Federal funds rate raised to 13-3/4 percent.

## 1982--Continued

February 2 Prime rate raised to 16-1/2 percent by Citibank and Crocker.

February 18 Prime rate increased to 17 percent.

February 24 Prime rate cut back to 16-1/2 percent.

March 1 Ford-UAW Pact ratified. Workers give up two weeks of paid time off and annual 3 percent raises.

March 8 Prime rate lowered to 16 percent.

March 16 Prime rate back up to 16-1/2 percent.

April 1 OPEC cuts production to 17.5 million barrels from current 18.2. Saudi bench mark set at \$34/barrels.

April 5 Unemployment rate nationally hits 9.0 percent tying the post-WW II high in May 1975.

April 12 General Motor and United Auto Workers labor agreement approved.

April 26 The U.S. consumer price index declined 0.3 percent--the first decline in 17 years and the largest drop in nearly a quarter of a century.

May 7 U.S. unemployment rate reaches 9.4 percent for a post-WW II record.



# CHRONOLOGY--Continued

## 1982--Continued

May 13 Braniff Air Lines ceases operation.

June 25 Secretary of State Alexander Haig resigns.

June 28 U.S. Supreme Court rules that federally chartered savings and loan associations cannot be prohibited from enforcing due-on-sale clauses in their mortgage contracts.

July 20 Discount rate lowered from 12 percent to 11-1/2 percent. Prime rate lowered from 16-1/2 percent to 16 percent.

July 27 Prime rate lowered to 15-1/2 percent.

August 2 Discount rate lowered to 11 percent. Prime rate lowered to 15 percent.

August 9 Unemployment rate reached 9.8 percent in July--the highest level since a 9.9 percent rate in 1941.

August 16 Discount rate cut from 11 percent to 10-1/2 percent. Most major banks lower their prime lending rates to 14-1/2 percent.

August 18 Dow Jones Industrial Average rose 38.81 points--an all-time record.

August 19 The stock market trading soared to a record 132,690,000 shares.

August 27 Discount rate lowered to 10 percent. Prime rate lowered to 13.5 percent.

## 1982--Continued

November 23 Prime rate lowered from 12 percent to 11-1/2 percent.

December 13 Discount rate cut to 8-1/2 percent.

December 14 Introduction of money market deposit accounts by banks and S&Ls.

## 1983

January 5 Super NOW accounts introduced.

January 11 Prime rate lowered to 11 percent.

January 31 Independent truckers strike begins.

February 10 Independent truckers strike end.

February 15 Toyota/GM agreement to build a small car in late 1984.

February 25 Prime rate lowered to 10-1/2 percent.

March 14 OPEC sets \$29 per barrel benchmark price and production quota of 17.5 million barrels.

May 2 A 6.5 magnitude earthquake strikes the town of Coalinga.

An earthquake measuring 6.5 on the Richter scale strikes Coalinga, California.

June 8 The maximum rate on government-backed mortgages was raised from 11-1/2 percent to 12 percent.

June 18 Paul Volcker reappointed as Federal Reserve Board Chairman.

# CHRONOLOGY--Continued

## 1983--Continued

June 24 The Federal Budget deficit totalled a record \$29.29 billion in May.

July 7 The maximum rate on government-backed mortgages was raised from 12 percent to 12-1/2 percent.

July 13 Chrysler Corporation announced it will repay the remaining \$800 million in federally guaranteed loans by September, seven years before they are due.

July 25 The Washington Public Power Supply System defaulted on \$2.25 billion in bonds, creating the largest municipal default in U.S. history.

August 1 California's \$1.2 billion offering of revenue-anticipation notes, the State's largest note issue, drew strong investor interest. Notes totalling \$700 million, maturing next April and June, were oversubscribed.

August 2 The maximum rate on government backed mortgages rose from 12-1/2 percent to 13-1/2 percent.

August 7-  
August 28 The Communications Workers of America and two other unions strike AT&T.

August 8 Prime rate raised from 10-1/2 percent to 11 percent by most major banks.

## 1983--Continued

August 23 The maximum rate on government backed mortgages fell from 13-1/2 percent to 13 percent.

September 1 Soviet Union shoots down Korean Airlines Flight 007, New York to Seoul, near the Soviet Island of Salhalin, just north of Japan.

November 1 Maximum rate on VA & FHA mortgages lowered from 13 percent to 12.5 percent.

November 3-  
December 21 Strike against Greyhound Lines Inc.

December 1 FHA mortgage interest rates begin to float. VA rates are still pegged.

## 1984

January 3 Breakup of AT&T becomes effective.

February 2 Contemporaneous reserve accounting is required by Fed for all but the very small deposit-taking institutions.

March 19 Prime rate raised from 11 percent to 11-1/2 percent.

March 20 Maximum rate on VA loans raised from 12-1/2 to 13 percent.

April 4 Prime rate raised from 11-1/2 percent to 12 percent.

April 9 Discount rate raised from 8-1/2 percent to 9 percent; the first change in 3 years.

May 5 Prime rate raised from 12 percent to 12-1/2 percent.

# CHRONOLOGY--Continued

## 1984--Continued

June 26 Prime rate raised from 12-1/2 percent to 13 percent.

September 3 - Hotel and restaurant  
December 7 strike - San Francisco.

September 15 - UAW-General Motors strike.  
October 14

September 28 Prime rate reduced from 13 percent to 12-3/4 percent.

October 16 Prime rate reduced from 12-3/4 percent to 12-1/2 percent.

October 28 Prime rate reduced from 12-1/2 percent to 12 percent.

November 7 Prime rate reduced from 12 percent to 11-3/4 percent.

November 21 Discount rate reduced from 9 percent to 8-1/4 percent.

November 28 Prime rate reduced from 11-3/4 percent to 11-1/4 percent.

December 17 Prime rate reduced from 11-1/4 percent to 10-3/4 percent.

December 24 Discount rate reduced from 8-1/2 percent to 8 percent.

## 1985

January 1 Federal price controls removed from approximately half of the natural gas produced in the United States.

## 1985 Continued

January 15 Prime rate reduced from 10-3/4 percent to 10-1/2 percent.

March 9 Home State Savings Bank Cincinnati, Ohio closed.

March 15 Seventy Ohio thrift institutions closed to prevent run on deposits.

March 25 Maximum rate on VA loans raised from 12-1/2 percent to 13 percent.

May 2 Auto manufacturer's initiate low interest loan programs.

May 17- June 14 United Airlines--Air Pilots Association strike.

May 17 Prime rate reduced from 10-1/2 percent to 10 percent.

May 20 Dow Jones Industrials close above 1,300 for the first time.

May 29 Presidents' tax reform plan unveiled.

June 18 Prime rate reduced to 9 1/2 percent from 10 1/2 percent.

July 16 Conventional mortgage rates fell to 12.03 percent average--the lowest since October 1979.

July 22- October 16 8,200 steelworkers on strike at Wheeling Pittsburgh--the industry's first major walkout in 26 years.

August 15 GM announces 7.7 percent financing rate program to run through October 2nd.

## CHRONOLOGY--Continued

### 1985--Continued

August 20 Ford and Chrysler announce incentive plans including low interest loans and rebates on 1985 autos.

September 4 The Farm Credit System seeks a Federal bailout of its \$74 billion loan portfolio.

September 15 A State Department of Housing and Community Development regulation requiring equal access on accessible levels of apartment houses with five or more units, for handicapped persons, went into effect.

September 16 Saudi Arabia announces plans to boost oil production and cut prices.

September 22 G-5 agreement to push the dollar lower.

November 7 Dow Jones Industrials close above 1400 for the first time.

December 10 World oil prices fall by more than a dollar after OPEC decides to abandon price supports.

December 12 President Reagan signs the budget deficit bill into law, raising the debt ceiling to \$2 trillion and setting deficit targets for each year through 1991.

December 23 President Reagan signs the farm subsidy bill into law, creating a 5-year plan to bail out the Farm Credit System.

### 1986

January 17 United Steel workers leaders agreed to allow rank-and-file members to vote on labor contracts for the first time in the union's history.

January 28 Space shuttle Challenger explosion destroys the spacecraft. Seven crew members died.

February 26 Corazon Aquino takes over Phillipines as the new president.

March 3 Dow Jones Industrials close above 1700 for the first time.

March 4 Yields on 10-year Treasury Notes fall below 8 percent for the first time in eight years.

Oil prices fall to \$12 per barrel.

March 7 The discount rate reduced from 7-1/2 percent to 7 percent, following similar cuts by Germany & Japan.

March 21 Dow Jones Industrials close above 1800 for the first time.

Conservative Chirac appointed as Prime Minister of France.

March 25 U.S. warplanes attacked two Libyan ships and a shoreline missile site after Libyan missiles were fired at U.S. planes in the Gulf of Sidra.

April 1 Interest ceilings on passbook saving accounts ended.

# CHRONOLOGY--Continued

| <u>1986--Continued</u> |                                                                                                                                            | <u>1986--Continued</u> |                                                                                                                                                |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1                | Oil prices fall to under \$11 per barrel.                                                                                                  | July 10                | The Fed lowered the discount rate from 6-1/2% to 6%.                                                                                           |
| April 14               | U.S. air strike against Libya.                                                                                                             | August 1               | United steelworkers strike for the first time since 1959. 44,000 workers were involved.                                                        |
| April 21               | U.S. Dollar reaches a post-WWII low against the Yen at 168.60.<br><br>Discount rate cut from 7 percent to 6-1/2 percent.                   | August 20              | The discount rate was reduced from 6 percent to 5-1/2 percent.                                                                                 |
| April 23               | Paul Volcker warns of public and private debt buildup as a threat to the economy.                                                          | August 27              | The prime rate was cut to 7-1/2 percent from 8 percent.                                                                                        |
| April 25               | Soviet nuclear plant at Chernobyl destroyed by fire.                                                                                       | August 28              | General Motors Corp. introduces a new incentive program to lure consumers by an unprecedented auto loan rate of 2.9 percent.                   |
| May 12                 | U.S. dollar falls to 159.95 Yen.                                                                                                           | September 4            | Stock market prices soared as the Dow Jones Industrial average jumped 38.38 points to a closing record of 1919.17.                             |
| May 22                 | U.S. proposes 35 percent tariff on Canadian cedar shakes and shingles for roofing, leading to a trade dispute between the U.S. and Canada. | September 5            | California bank and corporation tax law was amended to provide for a "Waters-Edge" election. This is an alternate treatment of taxable income. |
| June 1-<br>June 26     | CWA strike at AT&T.                                                                                                                        | September 11           | The Dow Jones Industrial average plummeted a record 86.61 points, or 4.61 percent to 1792.89.                                                  |
| July 7                 | The U.S. Supreme Court ruled that the Gramm-Rudman-Hollings mechanism for across the-board, automatic spending cuts was unconstitutional.  | October 22             | President Reagan signs the tax reform bill into law, the first full scale remodification since 1954.                                           |
| July 7                 | The Dow Jones Industrial average was down a record 61.87 points.                                                                           | November 1             | The savings bond rate dropped from 7-1/2 percent to 6 percent, affecting new issues only.                                                      |

# REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-1982

| <u>Initial<br/>Trough</u> |      | <u>Peak</u> |      | <u>Terminal<br/>Trough</u> |      | <u>Expansion<br/>(months)</u> | <u>Contraction<br/>(months)</u> | <u>Total<br/>(months)</u> |
|---------------------------|------|-------------|------|----------------------------|------|-------------------------------|---------------------------------|---------------------------|
| Dec.                      | 1854 | June        | 1857 | Dec.                       | 1858 | 30                            | 18                              | 48                        |
| Dec.                      | 1858 | Oct.        | 1860 | June                       | 1861 | 22                            | 8                               | 30                        |
| June                      | 1861 | April       | 1865 | Dec.                       | 1867 | 46                            | 32                              | 78                        |
| Dec.                      | 1867 | June        | 1869 | Dec.                       | 1870 | 18                            | 18                              | 36                        |
| Dec.                      | 1870 | Oct.        | 1873 | March                      | 1879 | 34                            | 65                              | 99                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1879 | March       | 1882 | May                        | 1885 | 36                            | 38                              | 74                        |
| May                       | 1885 | March       | 1887 | April                      | 1888 | 22                            | 13                              | 35                        |
| April                     | 1888 | July        | 1890 | May                        | 1891 | 27                            | 10                              | 37                        |
| May                       | 1891 | Jan.        | 1893 | June                       | 1894 | 20                            | 17                              | 37                        |
| June                      | 1894 | Dec.        | 1895 | June                       | 1897 | 18                            | 18                              | 36                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| June                      | 1897 | June        | 1899 | Dec.                       | 1900 | 24                            | 18                              | 42                        |
| Dec.                      | 1900 | Sept.       | 1902 | Aug.                       | 1904 | 21                            | 23                              | 44                        |
| Aug.                      | 1904 | May         | 1907 | June                       | 1908 | 33                            | 13                              | 46                        |
| June                      | 1908 | Jan.        | 1910 | Jan.                       | 1912 | 19                            | 24                              | 43                        |
| Jan.                      | 1912 | Jan.        | 1913 | Dec.                       | 1914 | 12                            | 23                              | 35                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| Dec                       | 1914 | Aug.        | 1918 | March                      | 1919 | 44                            | 7                               | 51                        |
| March                     | 1919 | Jan.        | 1920 | July                       | 1921 | 10                            | 18                              | 28                        |
| July                      | 1921 | May         | 1923 | July                       | 1924 | 22                            | 14                              | 36                        |
| July                      | 1924 | Oct.        | 1926 | Nov.                       | 1927 | 27                            | 13                              | 40                        |
| Nov.                      | 1927 | Aug.        | 1929 | March                      | 1933 | 21                            | 43                              | 64                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1933 | May         | 1937 | June                       | 1938 | 50                            | 13                              | 63                        |
| June                      | 1938 | Feb.        | 1945 | Oct.                       | 1945 | 80                            | 8                               | 88                        |
| Oct.                      | 1945 | Nov.        | 1948 | Oct.                       | 1949 | 37                            | 11                              | 48                        |
| Oct.                      | 1949 | July        | 1953 | May                        | 1954 | 45                            | 10                              | 55                        |
| May                       | 1954 | Aug.        | 1957 | April                      | 1958 | 39                            | 8                               | 47                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| April                     | 1958 | April       | 1960 | Feb.                       | 1961 | 24                            | 10                              | 34                        |
| Feb.                      | 1961 | Dec.        | 1969 | Nov.                       | 1970 | 106                           | 11                              | 117                       |
| Nov.                      | 1970 | Nov.        | 1973 | March                      | 1975 | 36                            | 16                              | 52                        |
| March                     | 1975 | Jan.        | 1980 | July                       | 1980 | 58                            | 6                               | 64                        |
| July                      | 1980 | July        | 1981 | Nov.                       | 1982 | 12                            | 16                              | 28                        |



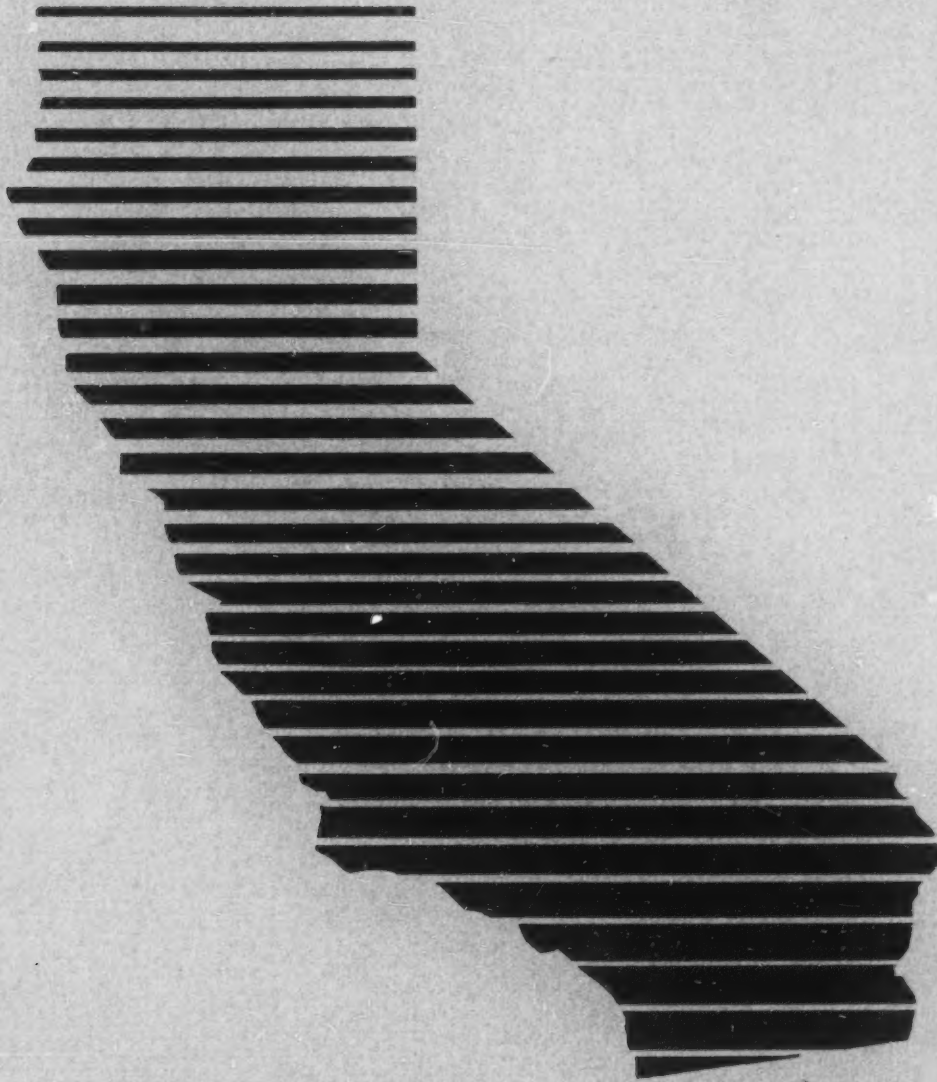
## SOURCES OF STATISTICAL SERIES

|                                                                                    |                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employment Development Department<br>Employment Data and Research                  | Civilian Employment<br>Unemployment<br>Unemployment rate<br>Nonagricultural employment<br>Manufacturing employment<br>Hours and earnings<br>Nonagricultural placements<br>Initial claims for unemployment<br>insurance<br>Insured unemployment<br>Index for production worker hours |
| Department of Industrial Relations<br>Division of Labor Statistics<br>and Research | California consumer price index                                                                                                                                                                                                                                                     |
| Department of Finance                                                              | Personal income<br>Wages and salaries<br>Index of leading indicators                                                                                                                                                                                                                |
| Department of Motor Vehicles                                                       | New auto registrations                                                                                                                                                                                                                                                              |
| State Board of Equalization                                                        | Taxable sales                                                                                                                                                                                                                                                                       |
| Security Pacific National Bank                                                     | Housing units authorized<br>Valuation of nonresidential<br>construction                                                                                                                                                                                                             |
| U.S. Department of Commerce                                                        | Retail sales                                                                                                                                                                                                                                                                        |
| U.S. Bureau of Labor Statistics                                                    | Consumer price indices                                                                                                                                                                                                                                                              |
| U.S. Department of Defense                                                         | Prime defense contracts                                                                                                                                                                                                                                                             |
| U.S. Department of Energy                                                          | Electricity production                                                                                                                                                                                                                                                              |
| California Redwood Association                                                     | Lumber production                                                                                                                                                                                                                                                                   |
| Conservation Committee of California<br>Oil Producers                              | Petroleum production                                                                                                                                                                                                                                                                |
| American Iron and Steel Institute                                                  | Steel production                                                                                                                                                                                                                                                                    |
| U.S. Bureau of Mines                                                               | Cement production                                                                                                                                                                                                                                                                   |
| California Secretary of State                                                      | New business incorporations                                                                                                                                                                                                                                                         |
| Federal Reserve Bank of<br>San Francisco                                           | Demand deposits<br>Commercial and industrial loans                                                                                                                                                                                                                                  |
| Coldwell Banker                                                                    | Vacancy Rates                                                                                                                                                                                                                                                                       |



# **CALIFORNIA ECONOMIC INDICATORS**

**January 1987**



**DEPARTMENT OF FINANCE**

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## INTRODUCTION

California Economic Indicators is a bimonthly summary of economic trends and data relating to the State of California. Generally patterned after the U.S. Census Bureau publication Business Conditions Digest, the report contains regular features.

Developments in California over the most recent months are reviewed in a brief text, and then summarized in current data tables which show changes over the previous year. Charts containing monthly and quarterly series from 1978 are included to facilitate the review of current developments, and to appraise the significance of the developments on the State economy. Much of the data in the report has been seasonally adjusted by the source agency or the Department of Finance.

Reference dates for U.S. business cycles, as determined by the National Bureau of Economic Research, are also shown. Finally, sources are cited on the inside back cover to assist readers in obtaining any additional information on the statistical series published.

The Department of Finance welcomes suggestions on additions or changes which would make the Indicators a more useful publication. Correspondence should be addressed to State of California, Department of Finance, Financial Research Unit, 1025 P Street, Sacramento, CA 95814.

Subscriptions are \$8.00 per year, and begin with the January issue. The subscription price will be prorated throughout the year based upon the beginning subscription date, as shown below:

| <u>Beginning Subscription Date</u> | <u>Prorated Amount Due</u> |
|------------------------------------|----------------------------|
| January                            | \$8.00                     |
| March                              | 6.75                       |
| May                                | 5.40                       |
| July                               | 4.05                       |
| September                          | 2.70                       |
| November                           | 1.35                       |

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## REVIEW OF ECONOMIC DEVELOPMENTS

The economic performance of the State during 1986 was moderate by historical standards and reflected widely diverse trends. The service-oriented sectors experienced substantial growth. Mining and manufacturing were weak. Overall, growth in employment, income and retail sales slowed in the last half of the year, but even so, California's economy continues to do better than that of the Nation.

Civilian employment is still rising steadily. It grew 3.2 percent between December 1985 and December 1986. However, a similar increase in the labor force resulted in a slight rise in the number of unemployed. The jobless rate stood at 6.7 percent in December for both California and the U.S.

The employment situation varies widely from county to county, with jobless rates ranging from less than 4 percent to more than 20 percent. The less densely populated counties and those with a heavy emphasis on agriculture have higher unemployment rates. These counties tend to be in the northern part of the State. The more densely populated counties of the Bay Area and Southern California have lower unemployment rates. The table below shows unadjusted unemployment rates for the top 10 and bottom 10 counties for November 1986. For comparison, the overall unadjusted rate for the State was 6.5 percent.

### HIGHEST 10 AND LOWEST 10 COUNTIES RANKED BY UNEMPLOYMENT RATE NOVEMBER 1986

| <u>County</u>   | <u>Rate</u> |
|-----------------|-------------|
| Marin           | 3.3         |
| San Mateo       | 3.5         |
| Orange          | 3.9         |
| San Luis Obispo | 4.7         |
| San Diego       | 5.0         |
| San Francisco   | 5.1         |
| Contra Costa    | 5.2         |
| Placer          | 5.2         |
| Sonoma          | 5.2         |
| Santa Barbara   | 5.4         |

| <u>County</u> | <u>Rate</u> |
|---------------|-------------|
| Monterey      | 12.7        |
| Tulare        | 12.8        |
| Fresno        | 12.8        |
| Kern          | 13.2        |
| Merced        | 13.5        |
| Stanislaus    | 13.7        |
| Del Norte     | 4.2         |
| San Benito    | 5.7         |
| Sutter        | 17.6        |
| Imperial      | 23.8        |

Comparisons on a year-over-year basis show that unemployment rates around the State were generally lower in November 1986 than they were in November 1985. However, the relative rankings of the counties remain about the same. There are a few cases where exceptional employment gains or losses were registered, dramatically changing the rankings of particular counties. For example, the Kern County unemployment rate rose from 11.1 percent in November 1985 to 13.2 percent in November 1986. The slump in the oil industry contributed to much of Kern County's economic softness. Other counties which experienced significant differences in unemployment rates over the year are small, and, therefore, often subject to large swings in their jobless rates.

In terms of nonagricultural wage and salary employment, the year-over-year increase of 2.5 percent brought the number of nonfarm workers in the State to 11,483,600 in December. The gain represented growth in all sectors, except for mining. The manufacturing sector seems to have made a comeback in the fourth quarter of 1986, reversing a downward trend which began in 1985.

Manufacturing employment surged 1.5 percent during the last three months of 1986, after a fairly steady decline from January through August. Nondurables accounted for much of the gain, advancing dramatically (2.9%) in the fourth quarter and 0.4 percent in December alone. Although the 1986 annual average for durables was down 1.2 percent from 1985, durables have been on an uptrend since mid-year.



Within nondurables, the food and kindred products industry saw the strongest year-end change, increasing 4.0 percent during November and December. However, this rise may have reflected an unusual seasonal situation rather than real growth. Weather conditions affect the industry significantly, and the seasonal adjustment factors account for usually poor weather during this period. Because of good weather during those two months, employment does not appear to have fallen as much as would normally be expected. As a result, the seasonally adjusted data indicate a gain which may not reflect the actual situation in the industry. Other nondurables that finished the year strong were apparel, printing and publishing, and the rubber/plastic products group.

Durables that were strong throughout 1986 were the stone-clay-glass products and lumber and wood products sectors. These industries are heavily dependent on construction, and reflected the banner year in homebuilding. The growth trend in lumber and wood products has been particularly encouraging for the resource counties of the north state area. The job gain statewide, during November and December alone was 4.2 percent. It should be noted, however, that lumber employment was also affected by favorable weather at the end of last year, possibly resulting in an over-adjustment for normal seasonal factors.

The aerospace/electronics sector has been, in essence, flat from January through November. Aircraft and parts have increased fairly steadily and as of December were up 4.1 percent from the comparable 1985 level. Missiles and space related activity was also higher. This more than offset continuing weakness in the electronics and computer/office machine categories. Foreign competition has taken its toll in these industries. However, recent information from the Semiconductor Industry Association shows the book-to-bill ratio rising, suggesting potential firming in 1987.

The one area of pronounced weakness is mining, which has felt downside impacts of falling oil prices. Kern County, in particular, has experienced major cutbacks in petroleum extraction activities. The loss of 5,000 jobs in mining from December 1985 to December 1986 accounted for 68 percent of the job loss in mining for the entire State over that period. With oil prices firming at present, employment in fuel mining areas should gradually stabilize and strengthen.

The services sector continues to grow steadily. The 2.9 percent year-over-year gain in December reflected significant gains in business, health and miscellaneous service employment. Employment in the trade industry was up 3.1 percent, boosted by increases in both the wholesale and retail sectors.

The sectors which continue to experience the fastest growth are finance and construction, which both posted year-over-year gains of greater than 5 percent. Real estate and investment firms accounted for most of the increase in the finance sector. Falling interest rates can be credited with providing stimulus to the finance and construction industries.

The construction sector ended the year on a strong note even with the uncertainties and changes in investment plans brought on by the 1986 Federal tax act. Both residential and nonresidential building have exceeded expectations, and continue to make gains despite the contraction in the industry elsewhere in the Nation. In November housing unit authorizations were at a 293,900 seasonally adjusted annual rate, up 4 percent from the year-earlier level. The number of multi-family units authorized has begun to taper off, as anticipated, and single unit authorizations have increased. This trend will probably continue through 1987, since the tax advantages of apartment complexes have been substantially reduced.

Nonresidential construction activity slowed during the last few months of 1986, but still remained above the year-earlier level. Total nonresidential valuation authorized in November was \$1,051 billion--21.9 percent higher than for November 1985. Commercial building, which is normally supported primarily by activity in the office, bank and professional building category, is still registering year-over-year gains, but growth is slowing. High vacancy rates in these types of buildings around the State is expected to lead to further cutbacks while existing space is absorbed.

Industrial and miscellaneous building also moderated during November, yet remains well above year-ago levels. The largest gains continue to be made in the alterations and additions category, which grew 29.6 percent. Alterations and additions now account for 26.3 percent of all nonresidential valuation.

Retail sales experienced a considerably different trend, approaching the end of 1986 on a rather subdued pace. The November-November increase was 0.2 percent. This may reflect in large part the slump in auto sales for that period. California's \$14.5 billion in retail sales represented 12 percent of all retail sales in the Nation in November. Preliminary data on auto sales for December indicate a 13.2 percent year-over-year growth. Special financing incentives and the last chance to take advantage of the sales tax deduction apparently motivated some buyers to make their purchases earlier than had these incentives not existed. In effect, activity in December "borrowed" from what would normally have taken place in early 1987.

The best news concerning the economy is on the inflation front. Inflation remains under control in California as well as in the rest of the country. In fact the rate of inflation has slowed since the beginning of 1986. In December the California Consumer Price Index was up 2.1 percent

on a year-over-year basis. Overall, consumer prices were up 3.2 percent in 1986 over 1985. That is the second lowest annual inflation rate for California in two decades. The only year when inflation was lower was 1983, when the California Consumer Price Index rose 1.6 percent. This was an aberration, however, due to a change in the method of treating housing costs.

Falling oil prices during the year were the main cause for the low rate of increase in the index in 1986. Had oil prices remained stable, the increase in the CPI would have registered a higher inflation rate. However, gasoline prices declined by more than 20 percent, and held inflation to 1.9 percent in the U.S.

A look at the current monthly data on major components of the index reveals that price increases have been slowing recently in almost all categories. The most significant development has been the deceleration in prices for residential rents and homeowners' costs in the last few months of 1986. In December, for example, residential rents were up 5.7 percent in Los Angeles and 5.4 percent in San Francisco. November data for the San Diego region show rents gained 5.3 percent. Increases in the homeowners' costs category were in the same range for all three regions. This is quite different from the 9 to 12 percent year-over-year increases experienced in 1985 and early 1986.

Food prices continue to exhibit year-over-year increases in the 2 to 4 percent range. Apparel prices in December declined 1 percent on a year-over-year basis in Los Angeles and were up only 0.5 percent in San Francisco. They rose 1.8 percent in November in San Diego.

The most notable price decreases were in fuel and utilities and transportation. Although gasoline prices have begun to stabilize, they are still well below year-ago levels, and this is reflected in the transportation index.

The main exception to the slowdown in price increases has been the recent rapid acceleration of medical care prices. This appears to be a nationwide trend, and reverses the slowing trend which was underway in 1983 and 1984. The medical care component increased 7.7 percent between December 1985 and December 1986 in the U.S., as well as in Los Angeles and San Francisco. It rose 9.7 percent over the year in San Diego.

A couple of technical notations about the Consumer Price Index require mention at this point. The U.S. Bureau of Labor Statistics has announced the implementation of some changes in the Consumer Price Index as of January 1987. Some survey areas are being expanded, including

the Los Angeles and San Francisco regions in California. San Bernardino, Riverside and Ventura counties will be added to the Los Angeles-Long Beach-Anaheim sample, and the San Francisco-Oakland index will now include data from Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma counties. In addition to these expanded survey changes, the San Diego index will be reported by the Bureau of Labor Statistics semi-annually. The San Diego index will no longer be published in California Economic Indicators. The impact of these revisions on calculation of the California Consumer Price Index will be discussed in the March 1987 issue.



## THE OUTLOOK FOR 1987 AND 1988

### The National Outlook

The pattern of economic growth in 1986 was erratic overall. Enactment of tax reform, auto financing incentives, and a deteriorating foreign trade situation were three major factors leading to quarter-to-quarter fluctuations and uncertainty over the near-term outlook.

The outlook hinges basically on three elements: consumer spending, inventory investment and net exports. Consumers can be counted on to keep the expansion going, but gains will be moderate. The acceleration of big ticket purchases such as autos in late 1986 to take advantage of special financing incentives and the final year of the sales tax deduction will temporarily slow purchases.

The inventory situation has been quite stable in recent months, suggesting that business has achieved an acceptable balance of stocks in relation to sales, and that large scale rebuilding will not be required.

Net exports are difficult to evaluate, given the interaction of domestic and international elements. By the end of 1986 there had been no apparent improvement in the trade deficit. There have been reports that exporters may be taking advantage of the dollar's decline to increase margins. On the other hand, if the correlation between final domestic demand and imports is as strong as some suggest, an increase in economic activity in the U.S. will also raise the demand for imports. As a result, sustained improvement in the net export situation is likely to be difficult to achieve.

Overall, growth is expected to be moderate in 1987. A temporary slowdown early in the year will be replaced by more normal growth rates in the second half. Any forecast for 1988 must be considered highly tentative at this point in time. It has been assumed, however, that 1988 will

see a return to above average growth as the sluggish performance of the past two years is shaken off. The forecast includes the following highlights.

- o An accommodative monetary policy, allowing interest rates to fall to keep the expansion going and leading to only a slight rise in inflation.
- o Real GNP up 2.4 percent in 1987, and 3.4 percent in 1988.
- o New car sales of 10.0 million units and 10.7 million units in 1987 and 1988, respectively.
- o Housing starts at 1.7 million units in 1987, rising to 1.9 million units in 1988.
- o Corporate profits up by 10.4 percent in 1987 and 23.4 percent in 1988.
- o Employment rising 2.0 percent in 1987, with the jobless rate at 7.1 percent.

### The California Outlook

Overall, the State is again expected to do better than the Nation in 1987 and 1988. Employment gains will be higher and the unemployment rate lower. Housing activity will be stronger and income gains will be better. The California forecast includes the following:

- o Personal income is expected to be up 6.1 percent in 1987. This reflects an employment gain of 2.9 percent and an inflation rate of 4.0 percent. Growth in personal income will rise to 7.2 percent in 1988.
- o The service industries will still continue to be a major source of growth for the State's economy.

- o After two outstanding years, residential construction is expected to ease back in 1987, with housing unit authorizations at a 254,000 unit pace. Housing construction will accelerate again in 1988.
- o Nonresidential construction will experience a major curtailment, induced by high vacancy rates in commercial buildings, as well as tax considerations.
- o Retail trade is dependent on consumer confidence and income. Growth will be tempered in early 1987, with a pick-up in sales by mid-year.

#### Uncertainties in the Forecast

One source of uncertainty in the outlook stems from the fact that the current expansion is now fifty months old. This cycle has lasted longer than the peacetime average of the past forty years. These facts alone do not lead to concern. There are some developments which suggest that a degree of caution may be warranted.

The ratio of consumer debt to income continues to rise. This is an important indicator to monitor, because the consumer will play a great role in continuing the current expansion in 1987. Debt ratios have been inflated in part by longer loan periods on major purchases. As they continue to rise, however, consumers may feel less able to assume new debt. A retrenchment in consumer spending, holding growth in outlays near income gains could lead to softness or

cutbacks in a number of related sectors. This situation, in conjunction with consumer confidence which has been holding up well recently, will bear watching carefully in coming months.

Another cause for caution in the outlook is revealed in recent employment and retail sales statistics. Employment gains have been slowing on a year-over-year basis for the past several quarters. Retail sales growth has also been tempered the past few quarters, and there have been some concerns expressed that retail sales may be somewhat softer in the West than elsewhere in the U.S.

Finally, it is no surprise that tax law changes have complicated evaluation of the outlook. There are indications that the loss of tax shelter status and the investment tax credit have already put a damper on investment. On the other hand, lower individual income tax rates may have the effect of giving consumers more spending power.

Even though the current business expansion has lasted more than four years, there are no signs of it coming to a halt. It is likely that the uneven pattern of growth of the past year has been a transition phase, making adjustments for potential problem areas, and avoiding an over-heated economy. The likelihood is that the last half of 1987 and 1988 will show significant improvement.

The following two pages of tables give details of the Department of Finance forecast for the California economy.

SELECTED ECONOMIC DATA 1987 AND 1988

|                                              | 1986   | 1987   | 1988   | Percent Change |      |      |
|----------------------------------------------|--------|--------|--------|----------------|------|------|
|                                              |        |        |        | 1986           | 1987 | 1988 |
| LABOR FORCE AND EMPLOYMENT<br>(In thousands) |        |        |        |                |      |      |
| Civilian Labor Force                         | 13,331 | 13,745 | 14,207 | 3.0            | 3.1  | 3.4  |
| Employment                                   | 12,437 | 12,792 | 13,213 | 3.6            | 2.9  | 3.3  |
| Unemployment                                 | 894    | 953    | 995    | -4.0           | 6.7  | 4.3  |
| Unemployment Rate                            | 6.7    | 6.9    | 7.0    | --             | --   | --   |
| Total Nonagricultural Employment             | 11,310 | 11,575 | 11,903 | 2.8            | 2.3  | 2.8  |
| Mining                                       | 43     | 41     | 41     | -14.1          | -3.6 | 1.0  |
| Construction                                 | 525    | 517    | 524    | 6.4            | -1.7 | 1.4  |
| Manufacturing                                | 2,067  | 2,055  | 2,072  | -0.6           | -0.6 | 0.8  |
| Nondurable Goods                             | 643    | 641    | 647    | 0.9            | -0.2 | 0.9  |
| Durable Goods                                | 1,425  | 1,414  | 1,425  | -1.3           | -0.7 | 0.8  |
| Aerospace                                    | 758    | 756    | 759    | 0.5            | -0.3 | 0.5  |
| Other Durables                               | 666    | 659    | 666    | -3.3           | -1.2 | 1.1  |
| Transportation-Utilities                     | 580    | 597    | 614    | 1.3            | 2.9  | 2.9  |
| Trade                                        | 2,724  | 2,812  | 2,914  | 3.5            | 3.2  | 3.6  |
| Wholesale                                    | 698    | 720    | 744    | 3.4            | 3.1  | 3.3  |
| Retail                                       | 2,026  | 2,092  | 2,170  | 3.5            | 3.3  | 3.7  |
| Finance, Insurance, Real Estate              | 766    | 798    | 836    | 5.6            | 4.2  | 4.9  |
| Services                                     | 2,765  | 2,882  | 3,001  | 4.2            | 4.2  | 4.1  |
| Business Services                            | 698    | 749    | 802    | 7.1            | 7.4  | 7.0  |
| Health Services                              | 675    | 702    | 731    | 3.7            | 4.0  | 4.1  |
| All Other Services                           | 1,392  | 1,430  | 1,468  | 3.0            | 2.7  | 2.6  |
| Government                                   | 1,839  | 1,874  | 1,900  | 2.5            | 1.9  | 1.4  |
| Federal                                      | 344    | 344    | 345    | 0.3            | -0.2 | 0.3  |
| State and Local                              | 1,495  | 1,530  | 1,555  | 3.0            | 2.3  | 1.7  |

# SELECTED ECONOMIC DATA 1987 AND 1988

|                                   | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>Percent Change</u> |             |             |
|-----------------------------------|-------------|-------------|-------------|-----------------------|-------------|-------------|
|                                   |             |             |             | <u>1986</u>           | <u>1987</u> | <u>1988</u> |
| PERSONAL INCOME<br>(In millions)  |             |             |             |                       |             |             |
| Total Personal Income             | \$453,372   | \$480,971   | \$515,745   | 7.0                   | 6.1         | 7.2         |
| Wages and Salaries                | 270,205     | 288,805     | 310,967     | 7.8                   | 6.9         | 7.7         |
| Other Labor Income                | 27,734      | 30,062      | 32,881      | 8.6                   | 8.4         | 9.4         |
| Proprietors' Income               | 39,043      | 42,227      | 46,182      | 7.1                   | 8.2         | 9.4         |
| Farm                              | 3,490       | 3,426       | 3,688       | -6.1                  | -1.8        | 7.6         |
| Nonfarm                           | 35,553      | 38,801      | 42,494      | 8.6                   | 9.1         | 9.5         |
| Property Income                   | 75,868      | 76,958      | 81,098      | 5.2                   | 1.4         | 5.4         |
| Interest                          | 59,869      | 60,187      | 63,172      | 0.3                   | 0.5         | 5.0         |
| Dividends                         | 10,178      | 10,838      | 12,027      | 7.6                   | 6.5         | 11.0        |
| Rent                              | 5,821       | 5,933       | 5,900       | 96.9                  | 1.9         | -0.5        |
| Transfer Payments                 | 60,341      | 64,198      | 67,535      | 6.7                   | 6.4         | 5.2         |
| Less Contributions                | 19,911      | 21,372      | 23,012      | 11.0                  | 7.3         | 7.7         |
| Residence Adjustment              | 93          | 93          | 93          | --                    | --          | --          |
| OTHER VARIABLES                   |             |             |             |                       |             |             |
| Housing Units                     | 271         | 254         | 276         | 2.0                   | -6.2        | 8.7         |
| Singles                           | 132         | 141         | 146         | 19.4                  | 7.1         | 3.8         |
| Multiples                         | 139         | 113         | 130         | -10.4                 | -18.8       | 14.8        |
| New Car Sales<br>(registrations)  | 1,405       | 1,278       | 1,363       | 10.8                  | -9.0        | 6.7         |
| Total Taxable Sales               | \$216,300   | \$225,000   | \$238,900   | 3.7                   | 4.0         | 6.2         |
| Corporate Profits<br>Before Taxes | 38,300      | 42,900      | 48,300      | --                    | 12.0        | 12.6        |
| Consumer Price Index              | 339.5       | 353.0       | 369.2       | 3.3                   | 4.0         | 4.6         |

**EMPLOYMENT**  
(Seasonally Adjusted)

|                                                                      | 1986     |          |          |          | 1985     | Percent<br>Change<br>Dec 1985-<br>Dec 1986 |
|----------------------------------------------------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                                                                      | Dec      | Nov      | Oct      | Sep      | Dec      |                                            |
| Civilian Employment (000)                                            | 12,467   | 12,558   | 12,537   | 12,570   | 12,086   | 3.2                                        |
| Unemployment (000)                                                   | 901      | 918      | 887      | 860      | 865      | 4.2                                        |
| Unemployment rate                                                    | 6.7      | 6.8      | 6.6      | 6.4      | 6.7      | --                                         |
| Nonagricultural wage<br>and salary<br>employment <sup>a/</sup> (000) | 11,483.6 | 11,457.3 | 11,418.9 | 11,385.0 | 11,201.8 | 2.5                                        |
| Mining                                                               | 41.1     | 41.0     | 41.3     | 40.8     | 48.7     | -15.6                                      |
| Construction                                                         | 547.6    | 547.4    | 539.7    | 536.1    | 518.4    | 5.6                                        |
| Manufacturing                                                        | 2,092.5  | 2,087.2  | 2,073.6  | 2,061.5  | 2,076.0  | 0.8                                        |
| Aerospace <sup>b/</sup>                                              | n.a.     | 758.6    | 759.2    | 759.3    | 758.3    | --                                         |
| Transportation and<br>Public utilities                               | 586.7    | 584.9    | 586.7    | 585.0    | 585.5    | 0.2                                        |
| Trade                                                                | 2,776.0  | 2,770.2  | 2,763.8  | 2,738.8  | 2,691.7  | 3.1                                        |
| Finance, insurance<br>and real estate                                | 777.3    | 775.0    | 772.6    | 773.0    | 738.1    | 5.3                                        |
| Services                                                             | 2,801.2  | 2,792.5  | 2,786.7  | 2,789.8  | 2,721.5  | 2.9                                        |
| Government                                                           | 1,861.2  | 1,859.1  | 1,854.5  | 1,860.0  | 1,821.9  | 2.2                                        |
| Federal                                                              | 346.0    | 345.3    | 343.0    | 341.5    | 349.1    | -0.9                                       |
| State & local                                                        | 1,515.2  | 1,513.8  | 1,511.5  | 1,518.5  | 1,472.8  | 2.9                                        |

<sup>a/</sup> Interim series of wage and salary workers. This unofficial series is adjusted for the latest tabulations of unemployment insurance coverage and approximates what the official data will be when estimates are updated at year end.

<sup>b/</sup> The Interim Series does not give a breakdown for aerospace employment. These values are from the EDD official employment series, and are not seasonally adjusted.

**HOURS AND EARNINGS IN MANUFACTURING**

|                         | 1986     |          |          |          | 1985     | Percent<br>Change<br>Nov 1985-<br>Nov 1986 |
|-------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                         | Nov      | Oct      | Sep      | Aug      | Nov      |                                            |
| Average weekly hours    | 40.5     | 40.3     | 40.3     | 40.1     | 40.4     | 0.2                                        |
| Average weekly earnings | \$425.25 | \$418.31 | \$420.73 | \$417.84 | \$413.25 | 2.9                                        |
| Average hourly earnings | \$10.50  | \$10.38  | \$10.44  | \$10.42  | \$10.23  | 2.6                                        |

TRADE  
(Seasonally Adjusted)

|                                    | 1986       |            |            |            | 1985       | Percent<br>Change<br>Dec 1985-<br>Dec 1986 |
|------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                    | <u>Dec</u> | <u>Nov</u> | <u>Oct</u> | <u>Sep</u> | <u>Dec</u> |                                            |
| Retail sales (millions)            |            | 14,458     | 15,022     | 15,613     | 14,314     | --                                         |
| New auto registrations<br>(number) | 120,228    | 95,755     | 154,212    | 148,122    | 106,171    | 13.2                                       |

CONSUMER PRICE INDEX  
(1967 = 100)

|                                           | 1986       |            |            |            | 1985       | Percent<br>Change<br>Dec 1985-<br>Dec 1986 |
|-------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                           | <u>Dec</u> | <u>Nov</u> | <u>Oct</u> | <u>Sep</u> | <u>Dec</u> |                                            |
| All Urban Series                          |            |            |            |            |            |                                            |
| California Average                        | 341.1      | --         | 344.1      | --         | 334.1      | 2.1                                        |
| San Francisco                             | 343.6      | --         | 347.7      | --         | 336.4      | 2.1                                        |
| Los Angeles                               | 332.9      | 333.8      | 336.2      | 334.6      | 326.1      | 2.1                                        |
| San Diego                                 | --         | 387.5      | --         | 385.9      | --         | --                                         |
| Wage Earner and Clerical<br>Worker Series |            |            |            |            |            |                                            |
| California Average                        | 330.1      | --         | 333.0      | --         | 324.7      | 1.7                                        |
| San Francisco                             | 337.0      | --         | 341.1      | --         | 331.3      | 1.7                                        |
| Los Angeles                               | 325.3      | 326.3      | 328.3      | 326.8      | 320.1      | 1.6                                        |
| San Diego                                 | --         | 349.0      | --         | 347.4      | --         | --                                         |

PRODUCTION

|                                                              | 1986       |            |            |            | 1985       |
|--------------------------------------------------------------|------------|------------|------------|------------|------------|
|                                                              | <u>Nov</u> | <u>Oct</u> | <u>Sep</u> | <u>Aug</u> | <u>Nov</u> |
| Petroleum (000 barrels daily)                                | n.a.       | n.a.       | 1,070      | 1,073      | 1,184      |
| Portland cement (000 short tons)                             | 766.4      | 1,001.9    | 854.9      | 856.9      | 696.8      |
| Selected redwood and whitewood<br>mill production (mil. FBM) | 68.1       | 90.6       | 76.0       | 64.9       | 44.3       |

n.a. Not available



# CONSTRUCTION

|                                                                             | 1986       |            |            |            | 1985       | Percent<br>Change<br>Nov 1985-<br>Nov 1986 |
|-----------------------------------------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                                                             | <u>Nov</u> | <u>Oct</u> | <u>Sep</u> | <u>Aug</u> | <u>Nov</u> |                                            |
| Private Residential<br>Housing Units<br>Authorized (000) <sup>a/</sup>      | 293.9      | 357.3      | 305.5      | 255.4      | 282.5      | 4.0                                        |
| Single Units                                                                | 141.6      | 157.8      | 167.7      | 115.9      | 108.6      | 30.4                                       |
| Multiple Units                                                              | 152.3      | 199.5      | 137.8      | 139.5      | 173.9      | -12.4                                      |
| Residential Building<br>Authorized Valuation<br>(millions) <sup>b/</sup>    | \$1,783    | \$2,179    | \$1,998    | \$1,873    | \$1,559    | 14.4                                       |
| Nonresidential Building<br>Authorized Valuation<br>(millions) <sup>b/</sup> | \$1,235    | \$1,205    | \$929      | \$1,109    | \$1,019    | 21.2                                       |
| Nonresidential Building<br>Authorized Valuation<br>(millions) <sup>c/</sup> | \$1,051    | \$1,266    | \$1,030    | \$1,183    | \$862      | 21.9                                       |
| Commercial                                                                  | \$447      | \$550      | \$375      | \$530      | \$359      | 24.5                                       |
| Industrial                                                                  | \$159      | \$204      | \$177      | \$183      | \$124      | 28.2                                       |
| Other                                                                       | \$169      | \$175      | \$178      | \$188      | \$166      | 1.8                                        |
| Alterations & Additions                                                     | \$276      | \$337      | \$300      | \$282      | \$213      | 29.6                                       |

<sup>a/</sup> Seasonally adjusted annual rate.

<sup>b/</sup> Seasonally adjusted.

<sup>c/</sup> Not adjusted for seasonal variation.

## VACANCY RATES FOR DECEMBER 1986 (Percent)

|                               | <u>Total</u> | <u>Office<br/>Downtown</u> | <u>Suburban</u> | <u>Industrial</u> |
|-------------------------------|--------------|----------------------------|-----------------|-------------------|
| Northern & Central California |              |                            |                 | 5.5               |
| Oakland - East Bay            | 28.3         | 19.1                       | 31.4            |                   |
| Sacramento                    | 21.3         | 11.3                       | 24.8            |                   |
| San Francisco                 | 19.4         | 18.1                       | 21.4            |                   |
| San Jose                      | 26.6         | 18.9                       | 28.2            |                   |
| Southern California           |              |                            |                 | 5.3               |
| Los Angeles                   | 17.3         | 15.0                       | 17.3            |                   |
| Orange County                 | 22.7         | n.a.                       | n.a.            |                   |
| San Diego                     | 23.1         | 17.0                       | 26.6            |                   |
| National Average              | 21.5         | 16.4                       | 23.8            | 5.8               |

# LEADING INDICATORS

|      |     | <u>Manufacturing</u> |                     | <u>Help</u>        |
|------|-----|----------------------|---------------------|--------------------|
|      |     | <u>Overtime</u>      | <u>Average</u>      | <u>Wanted Ads,</u> |
|      |     | <u>Hours</u>         | <u>Weekly Hours</u> | <u>Los Angeles</u> |
| 1985 | Oct | 3.3                  | 40.4                | 120,805            |
|      | Nov | 3.3                  | 40.2                | 123,535            |
|      | Dec | 3.4                  | 40.4                | 120,575            |
| 1986 | Jan | 3.0                  | 39.4                | 116,074            |
|      | Feb | 3.4                  | 40.1                | 119,691            |
|      | Mar | 3.5                  | 40.5                | 118,746            |
|      | Apr | 3.4                  | 40.6                | 120,146            |
|      | May | 3.4                  | 40.2                | 112,347            |
|      | Jun | 3.4                  | 40.3                | 121,726            |
|      | Jul | 3.4                  | 40.2                | 117,879            |
|      | Aug | 3.5                  | 40.0                | 119,945            |
|      | Sep | 3.3                  | 40.3                | 123,470            |
|      | Oct | 3.4                  | 40.3                | 118,347            |
|      | Nov | 3.3                  | 40.3                | 128,579            |

|      |     | <u>Unemployment</u>   | <u>Housing Unit</u>   | <u>New</u>            |
|------|-----|-----------------------|-----------------------|-----------------------|
|      |     | <u>Insurance</u>      | <u>Authorizations</u> | <u>Business</u>       |
|      |     | <u>Initial Claims</u> | <u>(Thousands)</u>    | <u>Incorporations</u> |
| 1985 | Oct | 68,886                | 244.7                 | 5,366                 |
|      | Nov | 61,065                | 245.7                 | 5,446                 |
|      | Dec | 69,229                | 219.6                 | 5,277                 |
| 1986 | Jan | 64,828                | 284.9                 | 5,740                 |
|      | Feb | 63,741                | 252.5                 | 5,642                 |
|      | Mar | 65,229                | 302.2                 | 5,302                 |
|      | Apr | 60,646                | 304.8                 | 5,981                 |
|      | May | 57,921                | 269.9                 | 5,007                 |
|      | Jun | 59,747                | 256.7                 | 5,338                 |
|      | Jul | 58,359                | 279.2                 | 5,740                 |
|      | Aug | 54,891                | 255.4                 | 5,085                 |
|      | Sep | 57,626                | 305.5                 | 6,036                 |
|      | Oct | 52,918                | 357.3                 | 5,532                 |
|      | Nov | 53,006                |                       |                       |

| California Index of Leading<br>Economic Indicators |     |       |      |     |       |     |       |
|----------------------------------------------------|-----|-------|------|-----|-------|-----|-------|
| 1985                                               | Oct | 139.7 | 1986 | Jan | 139.0 | Jun | 144.0 |
|                                                    | Nov | 142.2 |      | Feb | 142.0 | Jul | 143.8 |
|                                                    | Dec | 141.8 |      | Mar | 143.6 | Aug | 143.8 |
|                                                    |     |       |      | Apr | 144.4 | Sep | 144.7 |
|                                                    |     |       |      | May | 142.7 | Oct | 145.4 |

Note: All data seasonally adjusted.

# COINCIDENT INDICATORS

|      |     | Nonagricultural<br>Employment<br>(Thousands) | Manufacturing<br>Employment<br>(Thousands) | Unemployment<br>Rate<br>(Thousands) | Insured<br>Unemployment<br>Average<br>Weeks Claimed<br>(Thousands) |
|------|-----|----------------------------------------------|--------------------------------------------|-------------------------------------|--------------------------------------------------------------------|
| 1986 | Jan | 11,149                                       | 2,083                                      | 5.8                                 | 387                                                                |
|      | Feb | 11,170                                       | 2,074                                      | 7.2                                 | 397                                                                |
|      | Mar | 11,204                                       | 2,070                                      | 6.9                                 | 388                                                                |
|      | Apr | 11,254                                       | 2,068                                      | 6.8                                 | 407                                                                |
|      | May | 11,276                                       | 2,064                                      | 6.7                                 | 388                                                                |
|      | Jun | 11,295                                       | 2,068                                      | 6.5                                 | 388                                                                |
|      | Jul | 11,346                                       | 2,062                                      | 7.1                                 | 397                                                                |
|      | Aug | 11,356                                       | 2,059                                      | 6.6                                 | 381                                                                |
|      | Sep | 11,385                                       | 2,062                                      | 6.4                                 | 401                                                                |
|      | Oct | 11,419                                       | 2,074                                      | 6.6                                 | 380                                                                |
|      | Nov | 11,457                                       | 2,087                                      | 6.8                                 | 374                                                                |
|      | Dec | 11,484                                       | 2,093                                      | 6.7                                 |                                                                    |

|      |         | Personal<br>Income<br>(Millions) | Wages & Salaries from<br>Mining, Construction &<br>Manufacturing<br>(Millions) | Taxable Sales<br>(Millions) |
|------|---------|----------------------------------|--------------------------------------------------------------------------------|-----------------------------|
| 1985 | Qtr IV  | \$434,910                        | \$69,950                                                                       | \$52,950                    |
| 1986 | Qtr I   | \$444,013                        | \$69,896                                                                       | \$52,553                    |
|      | Qtr II  | \$451,674                        | \$71,420                                                                       | \$53,574                    |
|      | Qtr III | \$455,760                        | \$71,532                                                                       | \$54,134                    |

# OTHER INDICATORS

|      |         | DOD Prime Contracts<br>(Millions) |      |     | Electricity Production<br>(Million Kwh) |
|------|---------|-----------------------------------|------|-----|-----------------------------------------|
| 1985 | Qtr I   | 7,941                             | 1986 | Jan | 10,302                                  |
|      | Qtr II  | 4,057                             |      | Feb | 9,783                                   |
|      | Qtr III | 8,526                             |      | Mar | 10,830                                  |
|      | Qtr IV  | 7,828                             |      | Apr | 11,069                                  |
|      |         |                                   |      | May | 11,275                                  |
|      |         |                                   |      | Jun | 11,036                                  |
|      |         |                                   |      | Jul | 10,149                                  |
|      |         |                                   |      | Aug | 10,149                                  |
|      |         |                                   |      | Sep | 8,500                                   |
| 1986 | Qtr I   | 8,173                             |      | Oct | 10,223                                  |

Note: All data seasonally adjusted.

## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are production worker man-hours, insured unemployment, manufacturing employment, and taxable sales. These series are discussed in the technical note below.

### TECHNICAL NOTE

Whenever appropriate, data used in the charts have been seasonally adjusted. The series on average weekly hours of production workers in manufacturing and production worker man-hours are adjusted by the Bureau of Labor Statistics method. Other series have been adjusted by the Bureau of the Census (Shiskin) method. Persons interested in a detailed description of these methods are referred to the U.S. Department of Labor, Bureau of Labor Statistics, the BLS Seasonal Factor Method (1964); and the U.S. Department of Commerce, Bureau of the Census, Technical Paper No. 15, The X-11 Variant of the Census Method II. Seasonal Adjustment Program (November 1965).

Under the Census Bureau seasonal method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

#### Production Worker Man-Hours

This series is a substitute for the man-hours in nonagricultural establishments series used in the Census Bureau's publication, Business Cycle

Developments. It is the cross product of average weekly hours of production workers in manufacturing and manufacturing employment. Workweek data are a leading indicator. Manufacturing employment appears to be a coincident indicator, although at times it seems to lead economic downturns. Because of this, the man-hours series has been classified in the present publication as a leading indicator.

#### Insured Unemployment

The series on total insured unemployment is being used rather than the insured unemployment rate included in the Census Bureau's indicator list. The insured rate is available only with a lag of nine months, which precludes its usefulness as a current indicator.

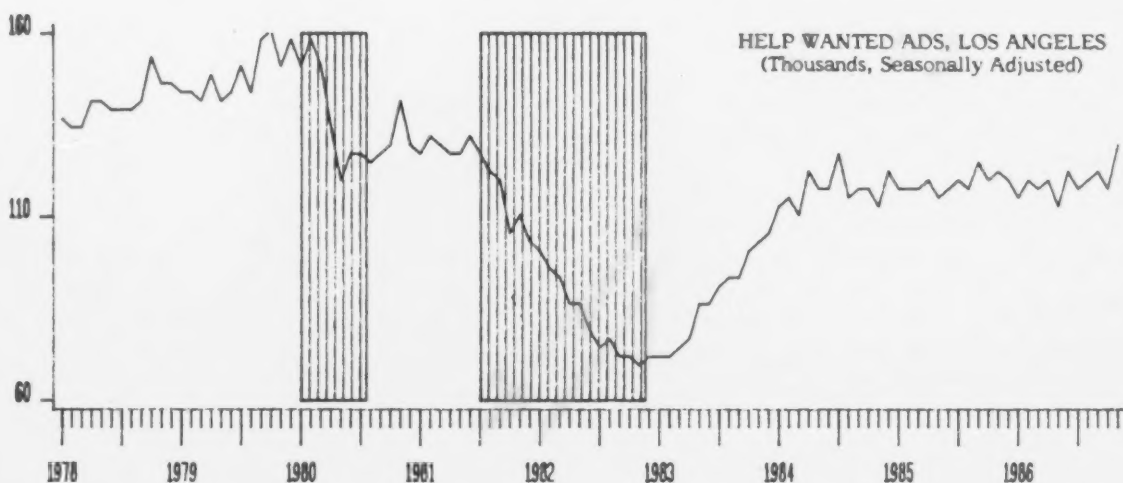
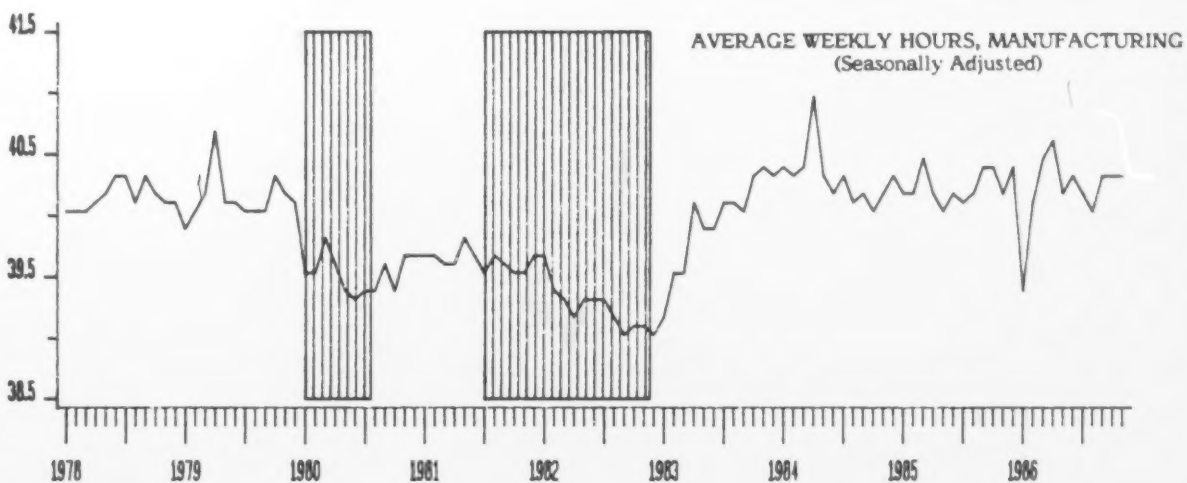
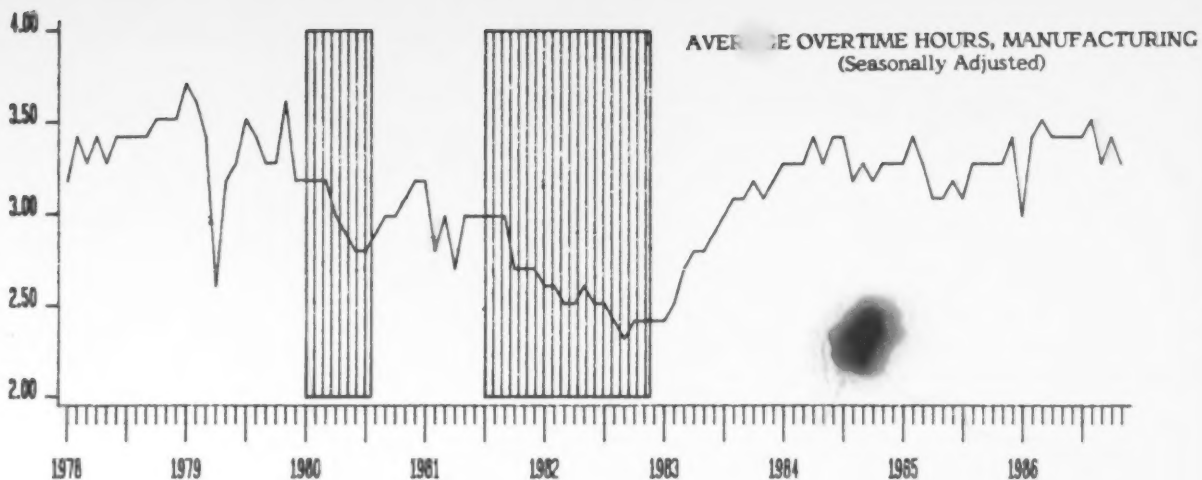
#### Manufacturing Employment

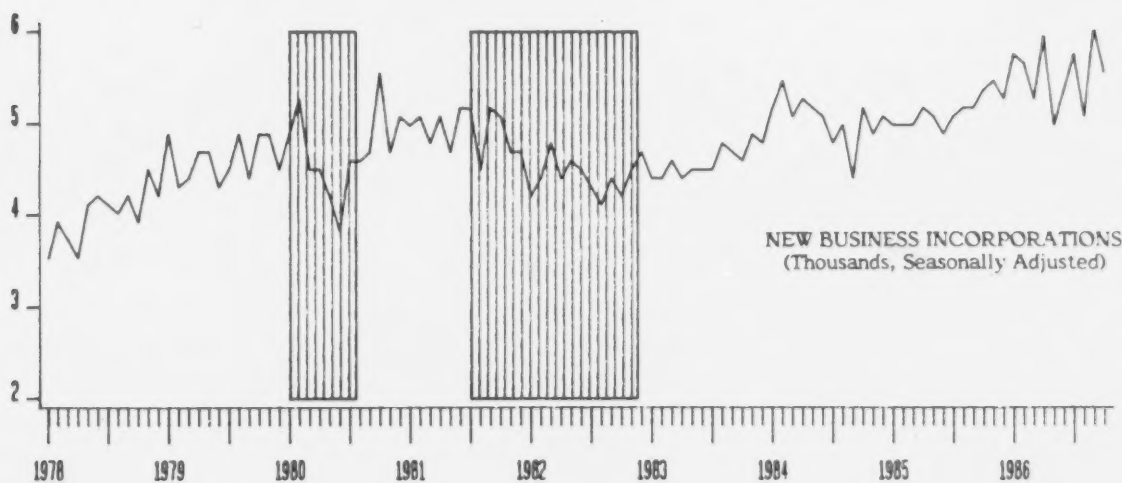
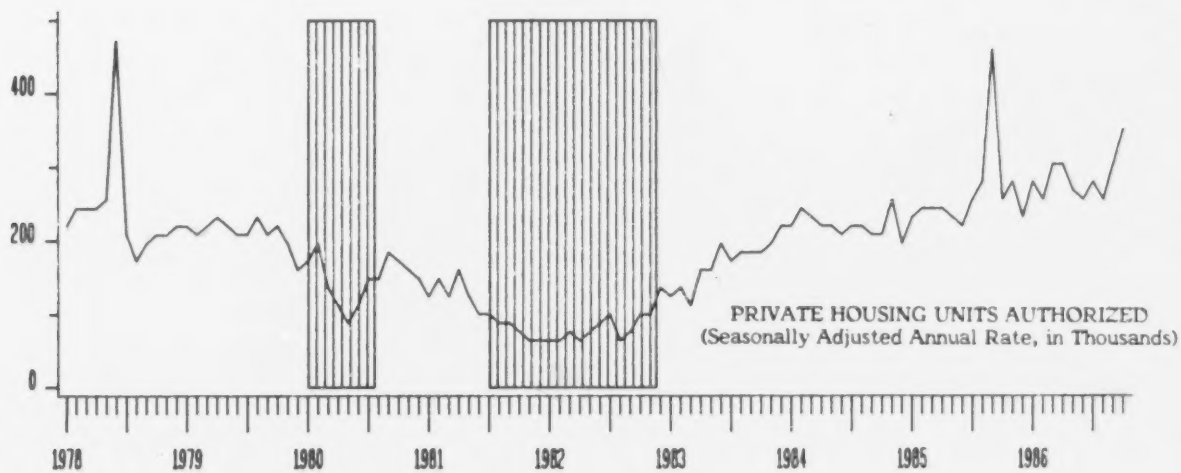
This series is also an addition to the Census Bureau indicator list. It was used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

#### Taxable Sales

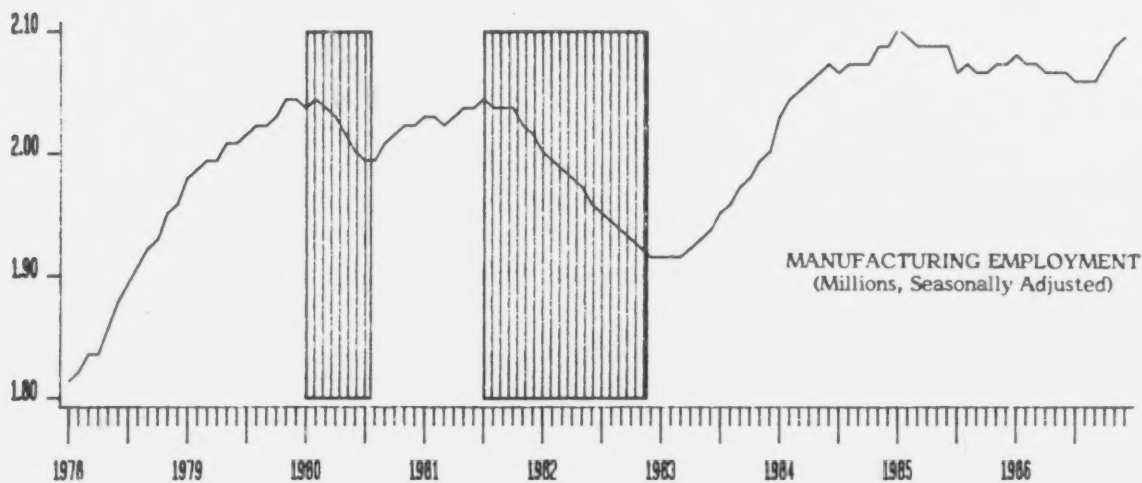
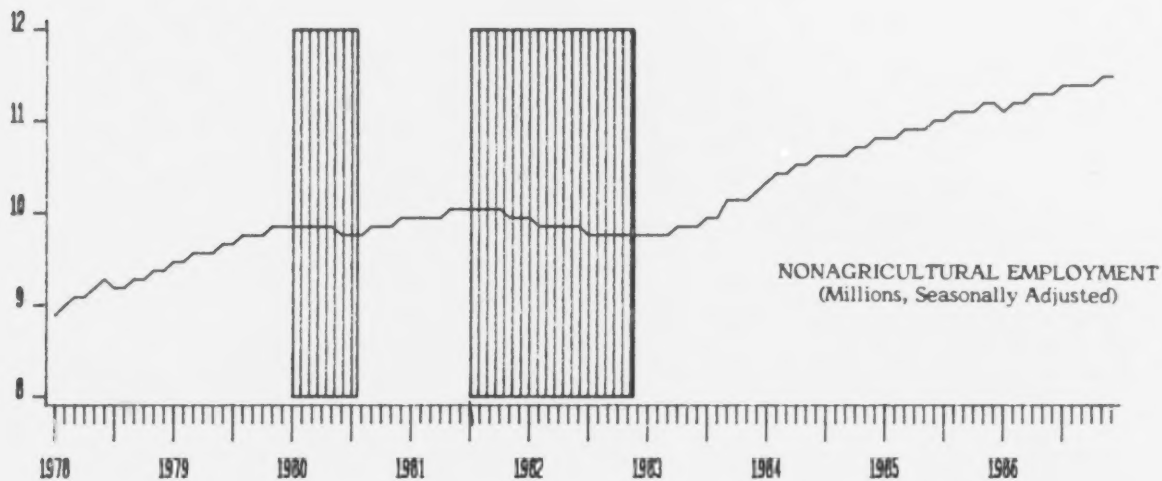
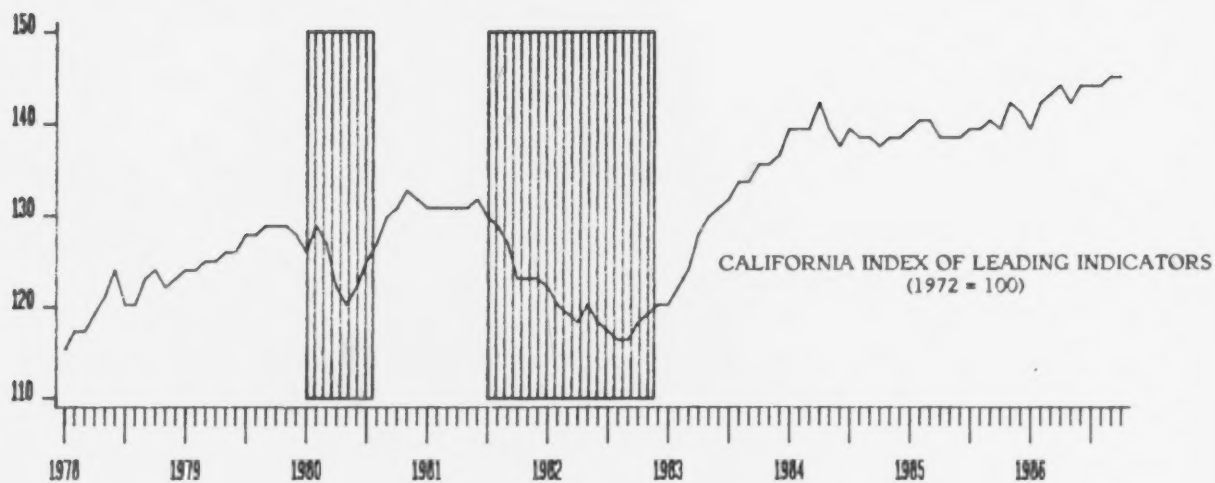
Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is therefore a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

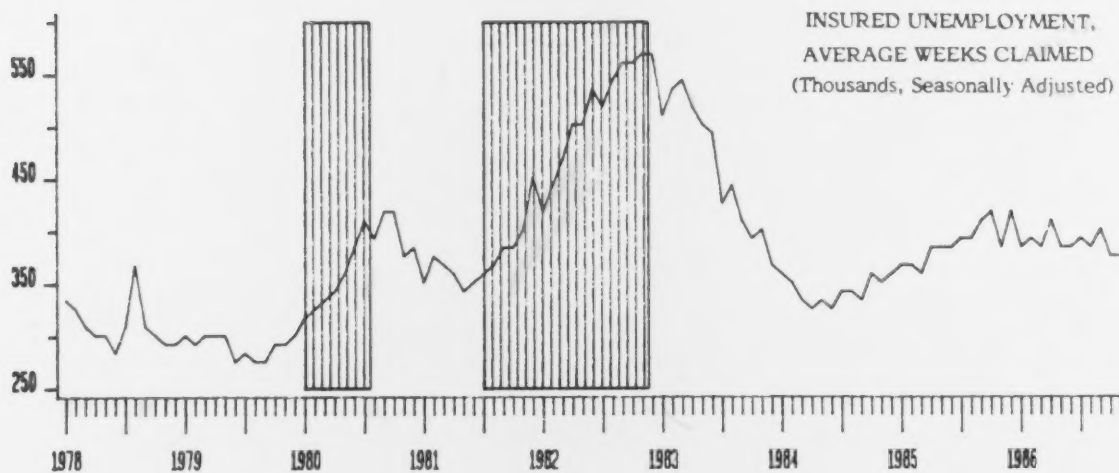
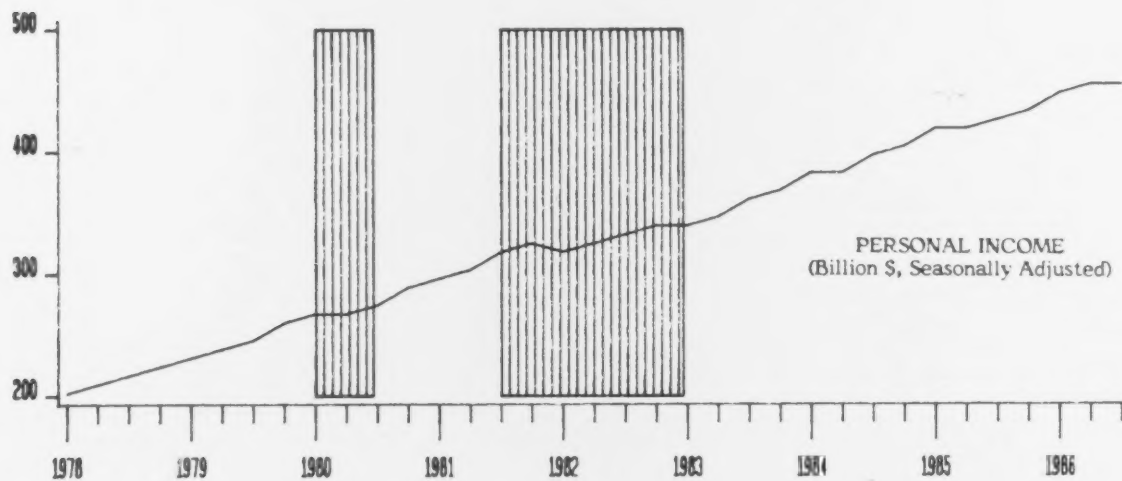
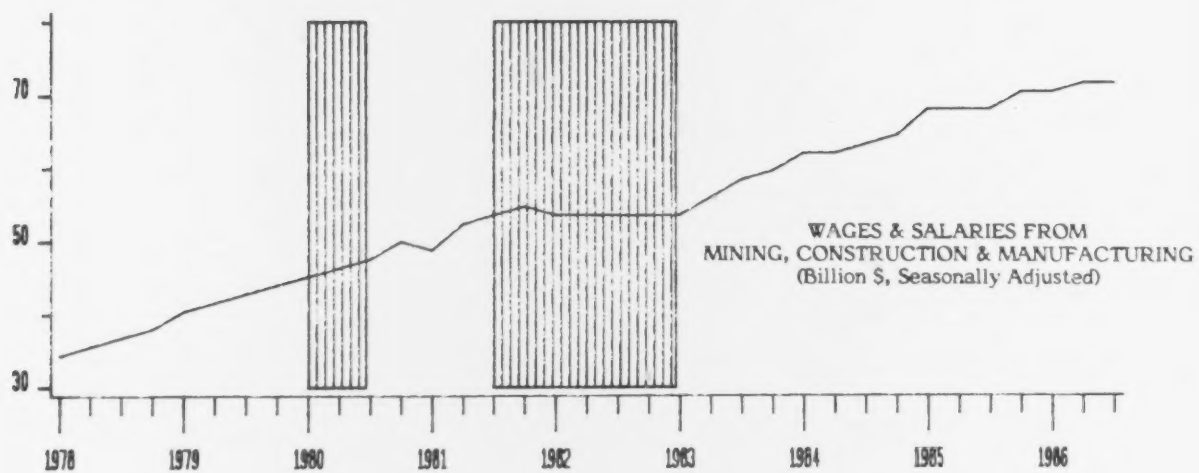
The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

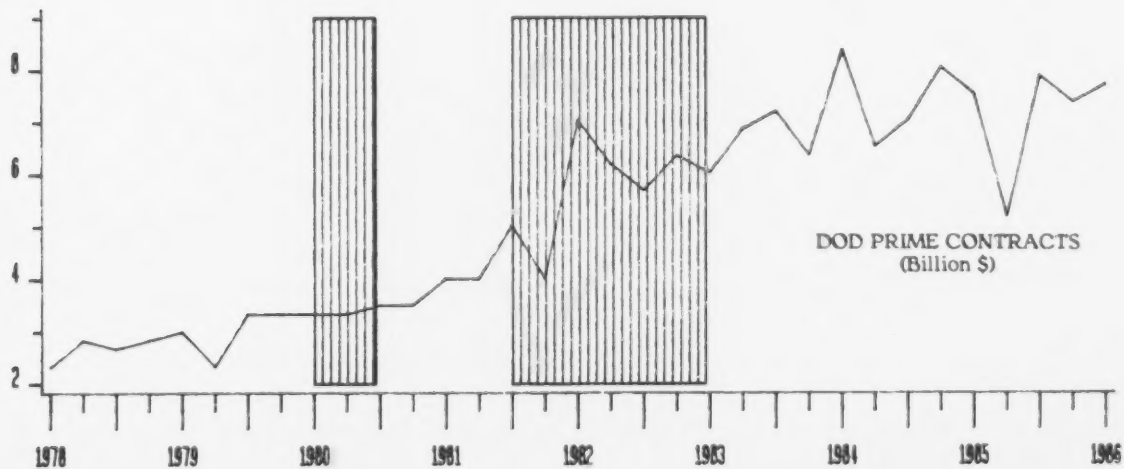
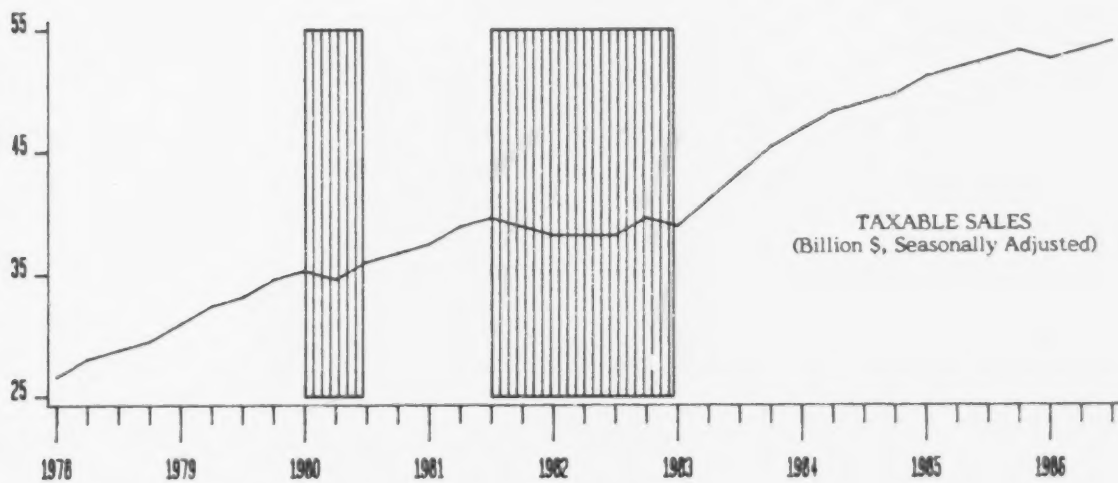
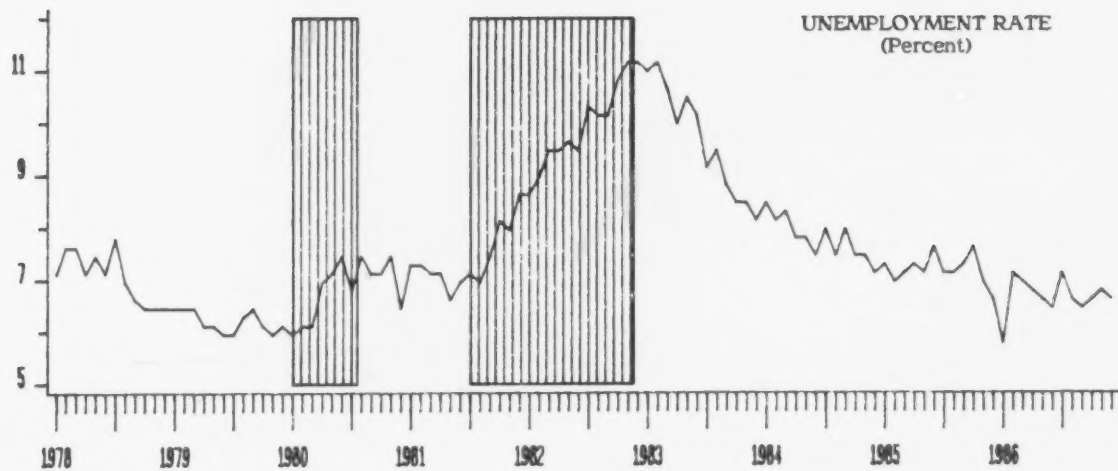


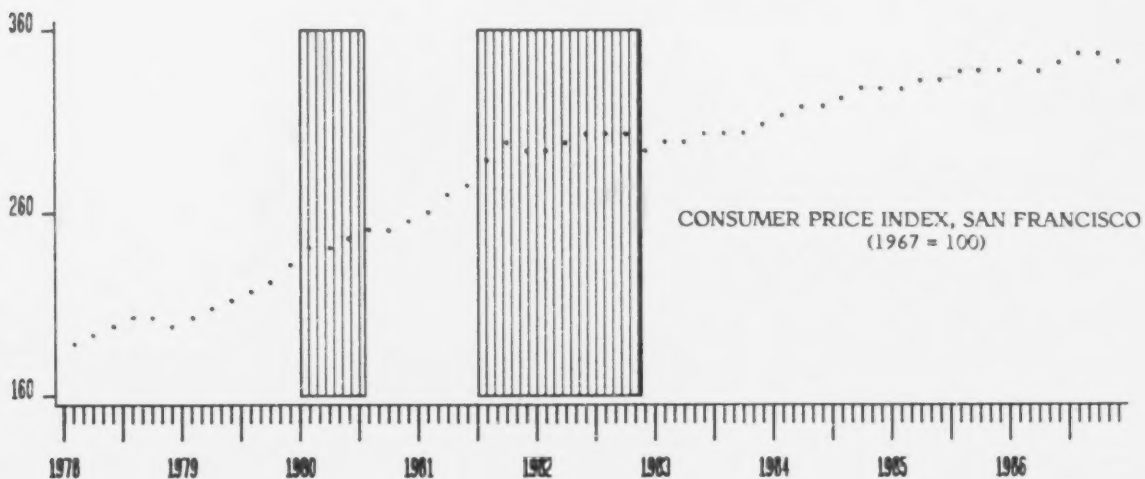
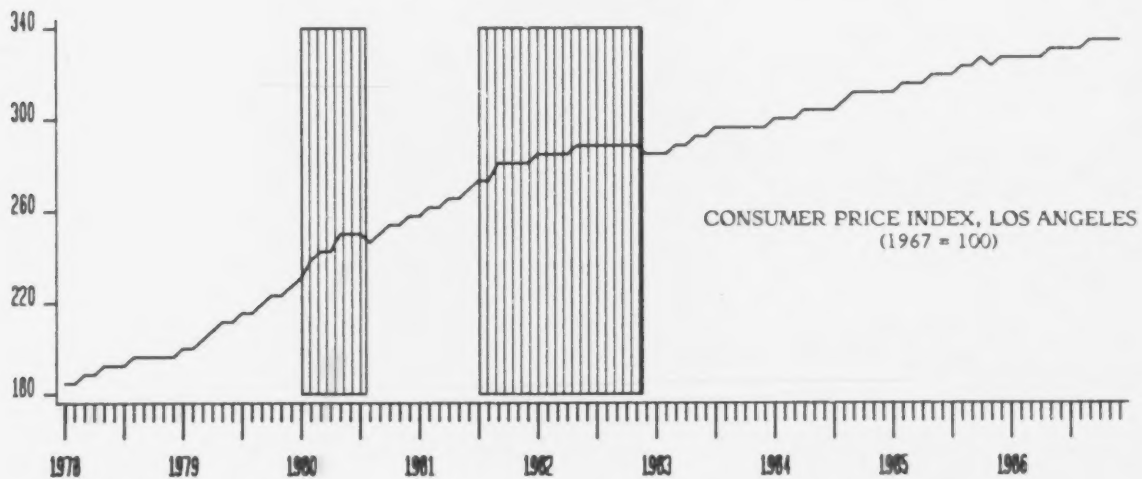
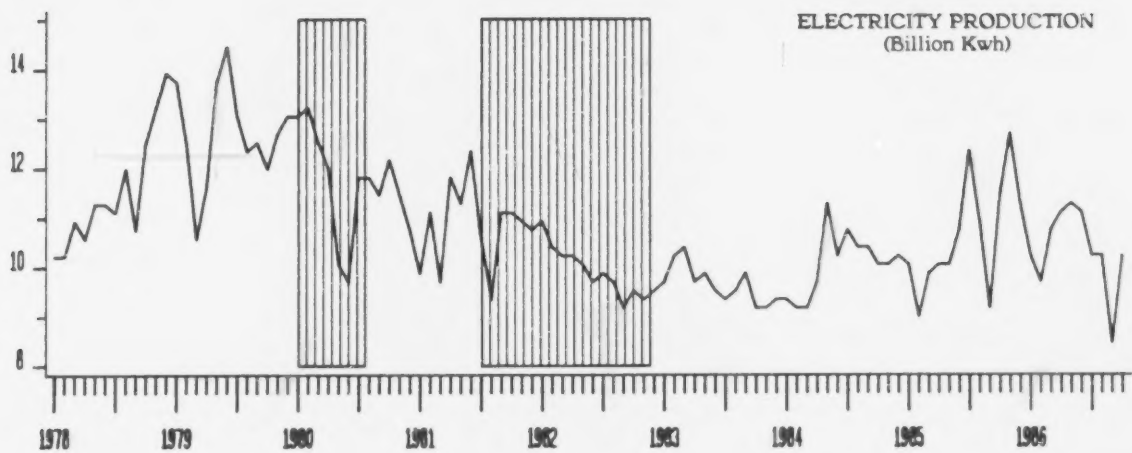












## CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national events of general interest have also been included.

| <u>1980</u> |                                                                                  | <u>1980--Continued</u> |                                                                                           |
|-------------|----------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------|
| February 25 | Prime rate raised to 16-1/2 percent.                                             | April 28               | FHA mortgages reduced to 13 percent.                                                      |
| February 27 | Ceilings on interest rates for government backed mortgages raised to 13 percent. |                        | Prime rate reduced to 18-1/2 percent.                                                     |
|             |                                                                                  | May 5                  | Prime rate reduced to 18 percent.                                                         |
| February 29 | Prime rate raised to 16-3/4 percent.                                             | May 7                  | Prime rate reduced to 17 percent.                                                         |
| March 4     | Prime rate raised to 17-1/4 percent.                                             | May 8                  | Discount rate surcharge reimposed.                                                        |
| March 7     | Prime rate raised to 17-3/4 percent.                                             | May 12                 | Prime rate reduced to 16-1/2 percent.                                                     |
| March 13    | Prime rate raised to 18-1/4 percent.                                             | May 19                 | Prime rate reduced to 16 percent.                                                         |
| March 14    | Announcement of tighter fiscal policies.                                         | May 28                 | Discount rate lowered to 12 percent. Some conventional mortgage rates fell to 12 percent. |
| March 17    | Three percent discount rate surcharge imposed.                                   |                        |                                                                                           |
| March 18    | Prime rate raised to 19 percent.                                                 | June 25                | Carpenters strike in Northern California ended.                                           |
| April 2     | Prime rate raised to 20 percent.                                                 | July 3                 | ICC begins trucking industry deregulation.                                                |
| April 3     | FHA mortgages raised to 14 percent.                                              | July 21-<br>October 23 | Motion picture and television industry strike.                                            |
| April 20    | Prime rate reduced to 19-1/2 percent.                                            |                        |                                                                                           |

# CHRONOLOGY--Continued

| <u>1980--Continued</u> |                                                                                                      | <u>1980--Continued</u> |                                                                                                   |
|------------------------|------------------------------------------------------------------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------|
| July 22                | Prime rate reduced to 11 percent.                                                                    | November 17            | Prime raised to 16 1/4 percent. Discount rate raised from 11 to 12 percent and surcharge imposed. |
| July 25                | Prime rate reduced to 10-3/4 percent.                                                                | November 21            | Prime raised to 17 percent.                                                                       |
| July 28                | Discount rate reduced to 10 percent.                                                                 | November 28            | Prime raised to 17-3/4 percent.                                                                   |
| August 5               | Prime rate raised to 11 percent.                                                                     | December 3             | Prime raised from 17-3/4 to 18-1/2 percent.                                                       |
| August 27              | Prime rate raised to 11-1/2 percent.                                                                 | December 5             | Discount rate raised from 12 to 13 percent. Prime raised to 19 percent.                           |
| September 5            | FHA mortgage interest rate raised from 11-1/2 to 12 percent.                                         | December 11            | Prime raised to 20 percent.                                                                       |
| September 12           | California mortgage rate raised from 13-1/2 percent to 13-3/4 percent.                               | December 17            | Prime raised from 20 to 21 percent.                                                               |
| September 25           | Pacific Southwest Airlines (PSA) pilots strike begins.                                               | December 23            | Prime lowered from 21 to 20-1/2 percent.                                                          |
| September 26           | Discount rate raised from 10 to 11 percent. Prime rate raised from 12-1/2 percent to 12-3/4 percent. | <u>1981</u>            |                                                                                                   |
| October 2              | Prime raised from 13 to 13-1/2 percent.                                                              | January 1              | Minimum wage raised from \$3.10 to \$3.35.                                                        |
| October 3              | Prime raised to 14 percent.                                                                          | January 6              | Prime lowered to 20 percent.                                                                      |
| October 15             | AFTA workers return to work.                                                                         | January 20             | American hostages released from Iran.                                                             |
| October 30             | Prime raised from 14 to 14-1/2 percent.                                                              | January 20             | Ronald Reagan inaugurated as 40th President of the U.S.                                           |
| November 7             | Prime raised from 14-1/2 to 15-1/2 percent.                                                          | January 28             | Deregulation of oil and gas industry announced, effective immediately.                            |
| November 14            | PSA pilots strike ends.                                                                              | January 29             | Prime rate lowered to 19-1/2 percent from 20 percent.                                             |



# CHRONOLOGY--Continued

| <u>1981--Continued</u> |                                                                                                 | <u>1981--Continued</u>    |                                                                            |
|------------------------|-------------------------------------------------------------------------------------------------|---------------------------|----------------------------------------------------------------------------|
| February 16            | General Motors and Ford rebate plans announced.                                                 | June 5                    | Dollar reaches highest level in international trading since December 1971. |
| February 23            | Prime rate lowered to 18 percent.                                                               | July 8                    | Prime rate raised to 20-1/2 percent.                                       |
| March 2                | Prime rate lowered to 18-1/2 percent.                                                           | August 3<br>Jan. 17, 1986 | Professional Air Traffic Controller's Organization strike.                 |
| March 10               | Prime rate lowered to 18 percent.                                                               | August 14                 | President Reagan signs both the tax- and budget-cut bills into law.        |
| March 16               | Prime rate lowered to 17-1/2 percent.                                                           | August 18                 | FHA-VA rate up to 16-1/2 percent from 15-1/2 percent.                      |
| March 18               | Prime rate lowered to 17 percent.                                                               | September 1               | Prime rate lowered to 20 percent.                                          |
| March 26-<br>June 8    | United mine workers strike.                                                                     | September 21              | Prime rate lowered to 19-1/2 percent.                                      |
| April 13               | Prime rate raised to 17-1/2 percent.                                                            | September 22              | Fed surcharge cut to 3 percent from 4 percent.                             |
| April 29               | Prime rate raised to 18 percent.                                                                | October                   | Introduction of All Savers Certificates to stimulate savings.              |
| May 4                  | Prime rate raised to 19 percent.                                                                | October 6                 | Prime rate lowered to 19 percent.                                          |
| May 5                  | Discount rate raised from 13 percent to 14 percent.                                             |                           | Egyptian President Sadat assassinated.                                     |
| May 8                  | FHA-VA rate up to 15-1/2 percent from 14-1/2 percent.                                           | October 13                | Prime rate lowered to 18 percent.                                          |
| May 11                 | Prime rate raised to 19-1/2 percent.                                                            | October 30                | OPEC price set at \$34.00/barrel--the Saudi benchmark.                     |
| May 22                 | Prime rate raised to 20 percent.                                                                | November 1                | Passbook interest rate raised 1/2 percent to 5-3/4 percent.                |
| May 27                 | OPEC fails to agree on a uniform price schedule. OPEC officials freeze prices at current level. |                           |                                                                            |

# CHRONOLOGY--Continued

## 1981--Continued

|        |                                                                                                   |
|--------|---------------------------------------------------------------------------------------------------|
| ber 2  | Fed discount rate cut from 14 percent to 13 percent.<br><br>Prime rate lowered to 17-1/2 percent. |
| ber 10 | Prime rate lowered to 17 percent.                                                                 |
| ber 13 | Prime rate lowered to 16-1/2 percent.<br><br>FHA mortgage rate lowered to 15-1/2 percent.         |
| ber 16 | Prime rate lowered to 16 percent.                                                                 |
| ber 17 | Fed eliminates 2 percent surcharge. Discount rate unaffected.                                     |
| ber 1  | Prime rate lowered to 15-1/2 percent.                                                             |
| ber 4  | Fed discount rate lowered from 13 percent to 12 percent.                                          |
| ber 12 | Martial law imposed in Poland.                                                                    |

## 1982

|      |                                                                    |
|------|--------------------------------------------------------------------|
| y 22 | Federal funds rate raised to 13-1/2 percent.                       |
| y 25 | FHA mortgage rate increased from 15-1/2 percent to 16-1/2 percent. |
| y 27 | Federal funds rate raised to 13-3/4 percent.                       |

## 1982--Continued

|             |                                                                                                                                          |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------|
| February 2  | Prime rate raised to 16-1/2 percent by Citibank and Crocker.                                                                             |
| February 18 | Prime rate increased to 17 percent.                                                                                                      |
| February 24 | Prime rate cut back to 16-1/2 percent.                                                                                                   |
| March 1     | Ford-UAW Pact ratified. Workers give up two weeks of paid time off and annual 3 percent raises.                                          |
| March 8     | Prime rate lowered to 16 percent.                                                                                                        |
| March 16    | Prime rate back up to 16-1/2 percent.                                                                                                    |
| April 1     | OPEC cuts production to 17.5 million barrels from current 18.2. Saudi bench mark set at \$34/barrels.                                    |
| April 5     | Unemployment rate nationally hits 9.0 percent tying the post-WW II high in May 1975.                                                     |
| April 12    | General Motor and United Auto Workers labor agreement approved.                                                                          |
| April 26    | The U.S. consumer price index declined 0.3 percent--the first decline in 17 years and the largest drop in nearly a quarter of a century. |
| May 7       | U.S. unemployment rate reaches 9.4 percent for a post-WW II record.                                                                      |

# CHRONOLOGY--Continued

| <u>1982--Continued</u> |                                                                                                                                                                      | <u>1982--Continued</u>                                                         |                                                                                               |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| May 13                 | Braniff Air Lines ceases operation.                                                                                                                                  | November 23                                                                    | Prime rate lowered from 12 percent to 11-1/2 percent.                                         |
| June 25                | Secretary of State Alexander Haig resigns.                                                                                                                           | December 13                                                                    | Discount rate cut to 8-1/2 percent.                                                           |
| June 28                | U.S. Supreme Court rules that federally chartered savings and loan associations cannot be prohibited from enforcing due-on-sale clauses in their mortgage contracts. | December 14                                                                    | Introduction of money market deposit accounts by banks and S&Ls.                              |
|                        |                                                                                                                                                                      | <u>1983</u>                                                                    |                                                                                               |
| July 20                | Discount rate lowered from 12 percent to 11-1/2 percent. Prime rate lowered from 16-1/2 percent to 16 percent.                                                       | January 5                                                                      | Super NOW accounts introduced.                                                                |
| July 27                | Prime rate lowered to 15-1/2 percent.                                                                                                                                | January 11                                                                     | Prime rate lowered to 11 percent.                                                             |
| August 2               | Discount rate lowered to 11 percent. Prime rate lowered to 15 percent.                                                                                               | January 31                                                                     | Independent truckers strike begins.                                                           |
| August 9               | Unemployment rate reached 9.8 percent in July--the highest level since a 9.9 percent rate in 1941.                                                                   | February 10                                                                    | Independent truckers strike end.                                                              |
| August 16              | Discount rate cut from 11 percent to 10-1/2 percent. Most major banks lower their prime lending rates to 14-1/2 percent.                                             | February 15                                                                    | Toyota/GM agreement to build a small car in late 1984.                                        |
| August 18              | Dow Jones Industrial Average rose 38.81 points--an all-time record.                                                                                                  | February 25                                                                    | Prime rate lowered to 10-1/2 percent.                                                         |
| August 19              | The stock market trading soared to a record 132,690,000 shares.                                                                                                      | March 14                                                                       | OPEC sets \$29 per barrel benchmark price and production quota of 17.5 million barrels.       |
| August 27              | Discount rate lowered to 10 percent. Prime rate lowered to 13.5 percent.                                                                                             | May 2                                                                          | A 6.5 magnitude earthquake strikes the town of Coalinga.                                      |
|                        |                                                                                                                                                                      | An earthquake measuring 6.5 on the Richter scale strikes Coalinga, California. |                                                                                               |
|                        |                                                                                                                                                                      | June 8                                                                         | The maximum rate on government-backed mortgages was raised from 11-1/2 percent to 12 percent. |
|                        |                                                                                                                                                                      | June 18                                                                        | Paul Volcker reappointed as Federal Reserve Board Chairman.                                   |

# CHRONOLOGY--Continued

## 1983--Continued

June 24 The Federal Budget deficit totalled a record \$29.29 billion in May.

July 7 The maximum rate on government-backed mortgages was raised from 12 percent to 12-1/2 percent.

July 13 Chrysler Corporation announced it will repay the remaining \$800 million in federally guaranteed loans by September, seven years before they are due.

July 25 The Washington Public Power Supply System defaulted on \$2.25 billion in bonds, creating the largest municipal default in U.S. history.

August 1 California's \$1.2 billion offering of revenue-anticipation notes, the State's largest note issue, drew strong investor interest. Notes totalling \$700 million, maturing next April and June, were oversubscribed.

August 2 The maximum rate on government backed mortgages rose from 12-1/2 percent to 13-1/2 percent.

August 7-August 28 The Communications Workers of America and two other unions strike AT&T.

August 8 Prime rate raised from 10-1/2 percent to 11 percent by most major banks.

## 1983--Continued

August 23 The maximum rate on government backed mortgages fell from 13-1/2 percent to 13 percent.

September 1 Soviet Union shoots down Korean Airlines Flight 007, New York to Seoul, near the Soviet Island of Salhalin, just north of Japan.

November 1 Maximum rate on VA & FHA mortgages lowered from 13 percent to 12.5 percent.

November 3-December 21 Strike against Greyhound Lines Inc.

December 1 FHA mortgage interest rates begin to float. VA rates are still pegged.

## 1984

January 3 Breakup of AT&T becomes effective.

February 2 Contemporaneous reserve accounting is required by Fed for all but the very small deposit-taking institutions.

March 19 Prime rate raised from 11 percent to 11-1/2 percent.

March 20 Maximum rate on VA loans raised from 12-1/2 to 13 percent.

April 4 Prime rate raised from 11-1/2 percent to 12 percent.

April 9 Discount rate raised from 8-1/2 percent to 9 percent; the first change in 3 years.

May 5 Prime rate raised from 12 percent to 12-1/2 percent.

## CHRONOLOGY--Continued

### 1984--Continued

|                              |                                                           |
|------------------------------|-----------------------------------------------------------|
| June 26                      | Prime rate raised from 12-1/2 percent to 13 percent.      |
| September 3 -<br>December 7  | Hotel and restaurant strike - San Francisco.              |
| September 15 -<br>October 14 | UAW-General Motors strike.                                |
| September 28                 | Prime rate reduced from 13 percent to 12-3/4 percent.     |
| October 16                   | Prime rate reduced from 12-3/4 percent to 12-1/2 percent. |
| October 28                   | Prime rate reduced from 12-1/2 percent to 12 percent.     |
| November 7                   | Prime rate reduced from 12 percent to 11-3/4 percent.     |
| November 21                  | Discount rate reduced from 9 percent to 8-1/2 percent.    |
| November 28                  | Prime rate reduced from 11-3/4 percent to 11-1/4 percent. |
| December 17                  | Prime rate reduced from 11-1/4 percent to 10-3/4 percent. |
| December 24                  | Discount rate reduced from 8-1/2 percent to 8 percent.    |

### 1985

|           |                                                                                                          |
|-----------|----------------------------------------------------------------------------------------------------------|
| January 1 | Federal price controls removed from approximately half of the natural gas produced in the United States. |
|-----------|----------------------------------------------------------------------------------------------------------|

### 1985 Continued

|                        |                                                                                                      |
|------------------------|------------------------------------------------------------------------------------------------------|
| January 15             | Prime rate reduced from 10-3/4 percent to 10-1/2 percent.                                            |
| March 9                | Home State Savings Bank Cincinnati, Ohio closed.                                                     |
| March 15               | Seventy Ohio thrift institutions closed to prevent run on deposits.                                  |
| March 25               | Maximum rate on VA loans raised from 12-1/2 percent to 13 percent.                                   |
| May 2                  | Auto manufacturer's initiate low interest loan programs.                                             |
| May 17-<br>June 14     | United Airlines--Air Pilots Association strike.                                                      |
| May 17                 | Prime rate reduced from 10-1/2 percent to 10 percent.                                                |
| May 20                 | Dow Jones Industrials close above 1,300 for the first time.                                          |
| May 29                 | Presidents' tax reform plan unveiled.                                                                |
| June 18                | Prime rate reduced to 9 1/2 percent from 10 1/2 percent.                                             |
| July 16                | Conventional mortgage rates fell to 12.03 percent average--the lowest since October 1979.            |
| July 22-<br>October 16 | 8,200 steelworkers on strike at Wheeling Pittsburgh--the industry's first major walkout in 26 years. |
| August 15              | GM announces 7.7 percent financing rate program to run through October 2nd.                          |



## CHRONOLOGY--Continued

### 1985--Continued

|              |                                                                                                                                                                                                        |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| August 20    | Ford and Chrysler announce incentive plans including low interest loans and rebates on 1985 autos.                                                                                                     |
| September 4  | The Farm Credit System seeks a Federal bailout of its \$74 billion loan portfolio.                                                                                                                     |
| September 15 | A State Department of Housing and Community Development regulation requiring equal access on accessible levels of apartment houses with five or more units, for handicapped persons, went into effect. |
| September 16 | Saudi Arabia announces plans to boost oil production and cut prices.                                                                                                                                   |
| September 22 | G-5 agreement to push the dollar lower.                                                                                                                                                                |
| November 7   | Dow Jones Industrials close above 1400 for the first time.                                                                                                                                             |
| December 10  | World oil prices fall by more than a dollar after OPEC decides to abandon price supports.                                                                                                              |
| December 12  | President Reagan signs the budget deficit bill into law, raising the debt ceiling to \$2 trillion and setting deficit targets for each year through 1991.                                              |
| December 23  | President Reagan signs the farm subsidy bill into law, creating a 5-year plan to bail out the Farm Credit System.                                                                                      |

### 1986

|             |                                                                                                                                             |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| January 17  | United Steel workers leaders agreed to allow rank-and-file members to vote on labor contracts for the first time in the union's history.    |
| January 28  | Space shuttle Challenger explosion destroys the spacecraft. Seven crew members died.                                                        |
| February 26 | Corazon Aquino takes over Phillipines as the new president.                                                                                 |
| March 3     | Dow Jones Industrials close above 1700 for the first time.                                                                                  |
| March 4     | Yields on 10-year Treasury Notes fall below 8 percent for the first time in eight years.<br><br>Oil prices fall to \$12 per barrel.         |
| March 7     | The discount rate reduced from 7-1/2 percent to 7 percent, following similar cuts by Germany & Japan.                                       |
| March 21    | Dow Jones Industrials close above 1800 for the first time.<br><br>Conservative Chirac appointed as Prime Minister of France.                |
| March 25    | U.S. warplanes attacked two Libyan ships and a shoreline missile site after Libyan missiles were fired at U.S. planes in the Gulf of Sidra. |
| April 1     | Interest ceilings on passbook saving accounts ended.                                                                                        |



# CHRONOLOGY--Continued

| <u>1986--Continued</u> |                                                                                                                                            | <u>1986--Continued</u>     |                                                                                                                                                |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1                | Oil prices fall to under \$11 per barrel.                                                                                                  | July 10                    | The Fed lowered the discount rate from 6-1/2% to 6%.                                                                                           |
| April 14               | U.S. air strike against Libya.                                                                                                             | August 1                   | United steelworkers strike for the first time since 1959. 44,000 workers were involved.                                                        |
| April 21               | U.S. Dollar reaches a post-WWII low against the Yen at 168.60.<br><br>Discount rate cut from 7 percent to 6-1/2 percent.                   | August 20                  | The discount rate was reduced from 6 percent to 5-1/2 percent.                                                                                 |
| April 23               | Paul Volcker warns of public and private debt buildup as a threat to the economy.                                                          | August 27                  | The prime rate was cut to 7-1/2 percent from 8 percent.                                                                                        |
| April 25               | Soviet nuclear plant at Chernobyl destroyed by fire.                                                                                       | August 28                  | General Motors Corp. introduces a new incentive program to lure consumers by an unprecedented auto loan rate of 2.9 percent.                   |
| May 12                 | U.S. dollar falls to 159.95 Yen.                                                                                                           | September 4                | Stock market prices soared as the Dow Jones Industrial average jumped 38.38 points to a closing record of 1919.17.                             |
| May 22                 | U.S. proposes 35 percent tariff on Canadian cedar shakes and shingles for roofing, leading to a trade dispute between the U.S. and Canada. | September 5                | California bank and corporation tax law was amended to provide for a "Waters-Edge" election. This is an alternate treatment of taxable income. |
| June 1-<br>June 26     | CWA strike at AT&T.                                                                                                                        | September 11               | The Dow Jones Industrial average plummeted a record 86.61 points, or 4.61 percent to 1792.89.                                                  |
| July 7                 | The U.S. Supreme Court ruled that the Gramm-Rudman-Hollings mechanism for across the-board, automatic spending cuts was unconstitutional.  | October 22                 | President Reagan signs the tax reform bill into law, the first full scale remodification since 1954.                                           |
| July 7                 | The Dow Jones Industrial average was down a record 61.87 points.                                                                           | October 27-<br>December 13 | Union employees from Kaiser Foundation Hospital, Kaiser Permanente Medical Group, Inc. & Kaiser Foundation Health Plan strike.                 |

## CHRONOLOGY--Continued

### 1986--Continued

November 1      The savings bond rate dropped from 7-1/2 percent to 6 percent, affecting new issues only.

### 1987

January 1      Fanny Mae raises mortgage ceiling to \$153,100 from \$133,250.

OPEC's 7 percent production cut went into effect. U.S. oil prices hit \$18 per barrel.

January 8      The Dow Jones Industrial average topped the 2000 mark.

January 19      The Dow Jones Industrial average topped the 2100 mark.

The dollar fell to a record low against the yen--150.49 yen to the dollar.

January 22      The Dow Jones Industrial average posted a record 51.60 percent gain to a new high of 2145.67.

# REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-1982

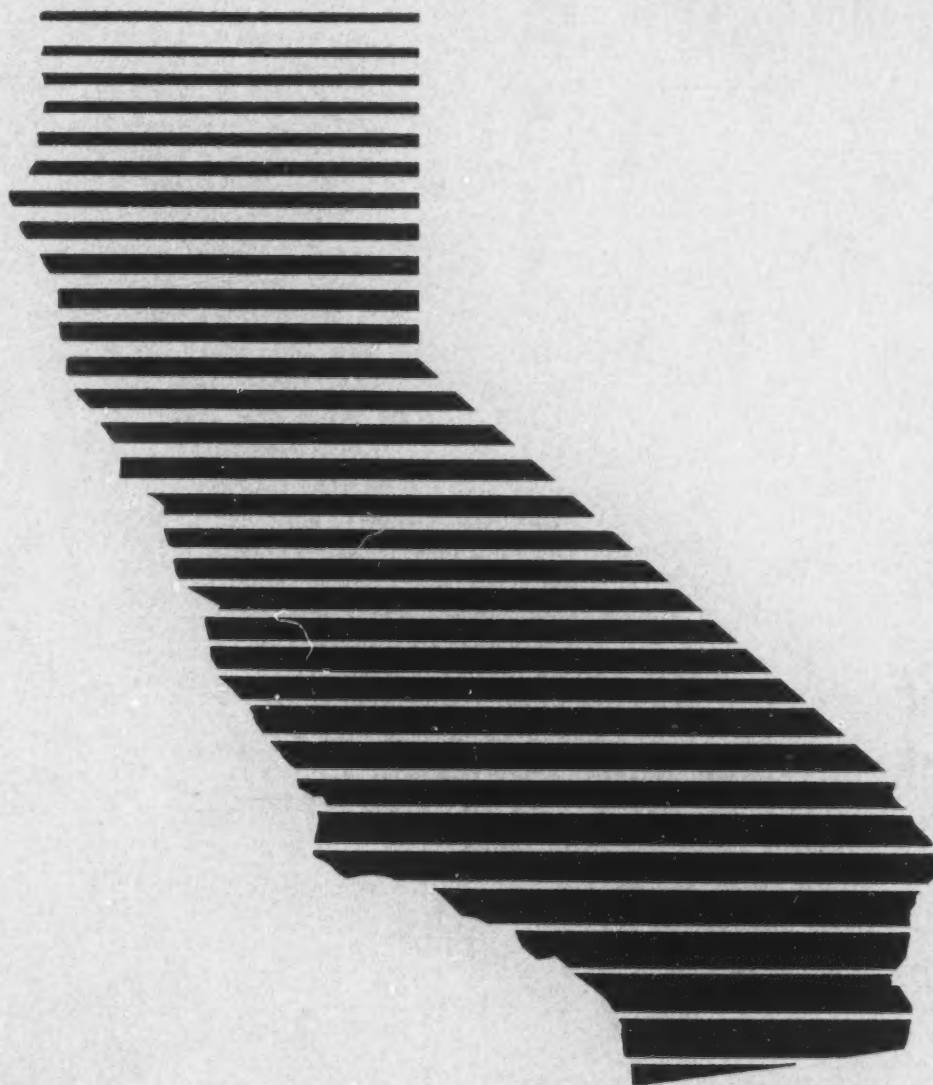
| <u>Initial<br/>Trough</u> |      | <u>Peak</u> |      | <u>Terminal<br/>Trough</u> |      | <u>Expansion<br/>(months)</u> | <u>Contraction<br/>(months)</u> | <u>Total<br/>(months)</u> |
|---------------------------|------|-------------|------|----------------------------|------|-------------------------------|---------------------------------|---------------------------|
| Dec.                      | 1854 | June        | 1857 | Dec.                       | 1858 | 30                            | 18                              | 48                        |
| Dec.                      | 1858 | Oct.        | 1860 | June                       | 1861 | 22                            | 8                               | 30                        |
| June                      | 1861 | April       | 1865 | Dec.                       | 1867 | 46                            | 32                              | 78                        |
| Dec.                      | 1867 | June        | 1869 | Dec.                       | 1870 | 18                            | 18                              | 36                        |
| Dec.                      | 1870 | Oct.        | 1873 | March                      | 1879 | 34                            | 65                              | 99                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1879 | March       | 1882 | May                        | 1885 | 36                            | 38                              | 74                        |
| May                       | 1885 | March       | 1887 | April                      | 1888 | 22                            | 13                              | 35                        |
| April                     | 1888 | July        | 1890 | May                        | 1891 | 27                            | 10                              | 37                        |
| May                       | 1891 | Jan.        | 1893 | June                       | 1894 | 20                            | 17                              | 37                        |
| June                      | 1894 | Dec.        | 1895 | June                       | 1897 | 18                            | 18                              | 36                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| June                      | 1897 | June        | 1899 | Dec.                       | 1900 | 24                            | 18                              | 42                        |
| Dec.                      | 1900 | Sept.       | 1902 | Aug.                       | 1904 | 21                            | 23                              | 44                        |
| Aug.                      | 1904 | May         | 1907 | June                       | 1908 | 33                            | 13                              | 46                        |
| June                      | 1908 | Jan.        | 1910 | Jan.                       | 1912 | 19                            | 24                              | 43                        |
| Jan.                      | 1912 | Jan.        | 1913 | Dec.                       | 1914 | 12                            | 23                              | 35                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| Dec                       | 1914 | Aug.        | 1918 | March                      | 1919 | 44                            | 7                               | 51                        |
| March                     | 1919 | Jan.        | 1920 | July                       | 1921 | 10                            | 18                              | 28                        |
| July                      | 1921 | May         | 1923 | July                       | 1924 | 22                            | 14                              | 36                        |
| July                      | 1924 | Oct.        | 1926 | Nov.                       | 1927 | 27                            | 13                              | 40                        |
| Nov.                      | 1927 | Aug.        | 1929 | March                      | 1933 | 21                            | 43                              | 64                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1933 | May         | 1937 | June                       | 1938 | 50                            | 13                              | 63                        |
| June                      | 1938 | Feb.        | 1945 | Oct.                       | 1945 | 80                            | 8                               | 88                        |
| Oct.                      | 1945 | Nov.        | 1948 | Oct.                       | 1949 | 37                            | 11                              | 48                        |
| Oct.                      | 1949 | July        | 1953 | May                        | 1954 | 45                            | 10                              | 55                        |
| May                       | 1954 | Aug.        | 1957 | April                      | 1958 | 39                            | 8                               | 47                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| April                     | 1958 | April       | 1960 | Feb.                       | 1961 | 24                            | 10                              | 34                        |
| Feb.                      | 1961 | Dec.        | 1969 | Nov.                       | 1970 | 106                           | 11                              | 117                       |
| Nov.                      | 1970 | Nov.        | 1973 | March                      | 1975 | 36                            | 16                              | 52                        |
| March                     | 1975 | Jan.        | 1980 | July                       | 1980 | 58                            | 6                               | 64                        |
| July                      | 1980 | July        | 1981 | Nov.                       | 1982 | 12                            | 16                              | 28                        |

## SOURCES OF STATISTICAL SERIES

|                                                                                    |                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employment Development Department<br>Employment Data and Research                  | Civilian Employment<br>Unemployment<br>Unemployment rate<br>Nonagricultural employment<br>Manufacturing employment<br>Hours and earnings<br>Nonagricultural placements<br>Initial claims for unemployment<br>insurance<br>Insured unemployment<br>Index for production worker hours |
| Department of Industrial Relations<br>Division of Labor Statistics<br>and Research | California consumer price index                                                                                                                                                                                                                                                     |
| Department of Finance                                                              | Personal income<br>Wages and salaries<br>Index of leading indicators                                                                                                                                                                                                                |
| Department of Motor Vehicles                                                       | New auto registrations                                                                                                                                                                                                                                                              |
| State Board of Equalization                                                        | Taxable sales                                                                                                                                                                                                                                                                       |
| Security Pacific National Bank                                                     | Housing units authorized<br>Valuation of nonresidential<br>construction                                                                                                                                                                                                             |
| U.S. Department of Commerce                                                        | Retail sales                                                                                                                                                                                                                                                                        |
| U.S. Bureau of Labor Statistics                                                    | Consumer price indices                                                                                                                                                                                                                                                              |
| U.S. Department of Defense                                                         | Prime defense contracts                                                                                                                                                                                                                                                             |
| U.S. Department of Energy                                                          | Electricity production                                                                                                                                                                                                                                                              |
| California Redwood Association                                                     | Lumber production                                                                                                                                                                                                                                                                   |
| Conservation Committee of California<br>Oil Producers                              | Petroleum production                                                                                                                                                                                                                                                                |
| American Iron and Steel Institute                                                  | Steel production                                                                                                                                                                                                                                                                    |
| U.S. Bureau of Mines                                                               | Cement production                                                                                                                                                                                                                                                                   |
| California Secretary of State                                                      | New business incorporations                                                                                                                                                                                                                                                         |
| Federal Reserve Bank of<br>San Francisco                                           | Demand deposits<br>Commercial and industrial loans                                                                                                                                                                                                                                  |
| Coldwell Banker                                                                    | Vacancy Rates                                                                                                                                                                                                                                                                       |

# **CALIFORNIA ECONOMIC INDICATORS**

**March 1987**



**DEPARTMENT OF FINANCE**



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## INTRODUCTION

California Economic Indicators is a bimonthly summary of economic trends and data relating to the State of California. Generally patterned after the U.S. Bureau of Economic Analysis publication Business Conditions Digest, the report contains regular features.

Developments in California over the most recent months are reviewed in a brief text, and then summarized in current data tables which show changes over the previous year. Charts containing monthly and quarterly series from 1978 are included to facilitate the review of current developments, and to appraise the significance of the developments on the State economy. Much of the data in the report has been seasonally adjusted by the source agency or the Department of Finance.

Reference dates for U.S. business cycles, as determined by the National Bureau of Economic Research, are also shown. Finally, sources are cited on the inside back cover to assist readers in obtaining any additional information on the statistical series published.

The Department of Finance welcomes suggestions on additions or changes which would make the Indicators a more useful publication. Correspondence should be addressed to State of California, Department of Finance, Financial Research Unit, 1025 P Street, Sacramento, CA 95814.

Subscriptions are \$8.00 per year, and begin with the January issue. The subscription price will be prorated throughout the year based upon the beginning subscription date, as shown below:

| <u>Beginning Subscription Date</u> | <u>Prorated Amount Due</u> |
|------------------------------------|----------------------------|
| January                            | \$8.00                     |
| March                              | 6.75                       |
| May                                | 5.40                       |
| July                               | 4.05                       |
| September                          | 2.70                       |
| November                           | 1.35                       |

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## REVIEW OF ECONOMIC DEVELOPMENTS

The California economy showed renewed signs of strength in the first quarter, shaking off the sluggishness which plagued much of 1986. This was in marked contrast to the national situation, which continued to be characterized by quite uneven patterns.

Perhaps the most encouraging development has been the upturn in retail sales. Reports from the industry and sales tax collections both suggest a substantial improvement. The market for soft goods, for instance, has apparently bounced back strongly. The one notable exception is the auto sector, which is still trying to reestablish a more normal market after the incentive- and tax-induced sales swings last year.

Employment has also seen a snapback. Year-over-year gains in the wage and salary series are currently running just under 3 percent, as opposed to approximately 2 percent in the second half of 1986. Job growth between February 1986 and February 1987 amounted to more than 325,000. No one sector dominated the scene.

Retailing--as would be expected given recent sales data--is posting steady increases. Services are also up, although the softness is keeping growth rates in check. The two strong service categories are business and recreation.

The finance-insurance-real estate and transportation-utility groups, although service-oriented, are largely dependent upon conditions in trade and the goods producing sectors. These sectors seem to be edging higher. Even manufacturing has seen some tentative signs of firming lately, with stabilizing in the aerospace/electronics industry.

The strongest sector remains construction, however, which saw employment reach almost 570,000 in February. Activity is

apparently strong, reflecting work on projects previously started. The industry is likely to see somewhat mixed trends for the next several months, however. The impact of tax revision is already being felt in the multi-family area. Tax considerations have been behind a significant number of projects. The new tax law essentially removes tax shelter possibilities for projects not already in place by the end of 1986. As a result, multi-family authorizations have slacked off in recent months.

A more recent development has been the imposition of fees to fund school construction. These were authorized by legislation last year, with implementation after January 1, 1987, at \$1.50 per square foot for residential structures and \$.25 per square foot for commercial space. Builders have accelerated their permit applications in areas applying the fees. This will tend to distort the data on construction for much of this year, as a surge in permit approvals is followed by an adjustment to more normal levels.

Rising vacancy rates have been a concern for some time, although they do not yet appear to have cut into construction activity to any significant degree. Population growth was greater than expected over the last year, and may have helped absorb any excess housing supply. The latest quarterly report on office space actually showed a slight improvement in several areas, although rates remain far above normal levels.

The overall gain in economic activity has been reflected in two other major indicators: the unemployment rate and personal income. The jobless rate for the State fell to 6.2 percent for January and February, half a percentage point below the national rate. Labor force growth amounted to 2.8 percent on a year-over-year basis. Civilian employment was up a modest 2.4 percent over the year as of January, but surged ahead by nearly 4 percent for February.

### Vacancy Rates for Office Buildings

|                  | <u>Dec.</u><br><u>1985</u> | <u>Mar.</u><br><u>1986</u> | <u>Jun.</u><br><u>1986</u> | <u>Sep.</u><br><u>1986</u> | <u>Dec.</u><br><u>1986</u> |
|------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| San Jose         | 24.5                       | 23.9                       | 25.4                       | 26.0                       | 26.6                       |
| San Francisco    | 16.6                       | 18.4                       | 18.5                       | 17.5                       | 19.4                       |
| Los Angeles      | 16.9                       | 16.4                       | 16.8                       | 17.5                       | 17.3                       |
| Sacramento       | 26.1                       | 14.6                       | 25.2                       | 23.5                       | 21.3                       |
| San Diego        | 22.9                       | 22.0                       | 24.3                       | 24.1                       | 23.1                       |
| Oakland-East Bay | 24.9                       | 24.0                       | 25.2                       | 26.2                       | 28.3                       |

Source: Coldwell Banker.

Personal income data are available only through the fourth quarter of 1986. They suggest a year-end resurgence, however, which is expected to carry through into 1987.

A number of factors have complicated analysis of current developments. As noted before, tax revision was a primary factor tending to distort normal patterns of activity. It accelerated purchases of big ticket items to take advantage of the last year of the sales tax deduction. Business and individuals both pushed deductions into 1986, when they would be worth more in terms of marginal tax rates. The State saw unexpected revenue collections, for instance, to take advantage of the deductibility of state taxes.

Beyond this, seasonal factors may be complicating the situation. The unusually warm and dry winter in much of California permitted outdoor activity beyond that which normally occurs. This may have been behind much of the recent strength in the construction industry. If subsequent months see a return to normal patterns, the data could show an unrealistic downturn for a short period.

Data revisions have also been significant. The nonagricultural wage and salary employment figures shown in this report, for instance, are derived from the quarterly benchmark received in March. The series was revised down by

approximately 100,000, with the largest cuts occurring in manufacturing (primarily durable goods), trade and services. Personal income mirrored this change, with wages and salaries lower than previously estimated.

The latest revision of the consumer price index--described in a special section in this issue--has complicated analysis of the California consumer price index. With the San Diego index now on a semi-annual basis only, it has been dropped from the statewide CPI calculation. The California index is now a weighted average of the Los Angeles and San Francisco indexes. Since these two indexes are running at a considerably lower level than the San Diego index, the California index has been lowered. It is, therefore, not possible to derive meaningful percent changes between 1986 and 1987 values from the available data. This problem is still under study, however, and hopefully will be resolved in coming weeks.

CPI data for San Francisco and Los Angeles so far this year suggest a significant shift in price trends. The residential rent and homeowner's cost items, which were up sharply in 1986, are now seeing much more moderate gains. Medical care, in contrast, has accelerated, increasing at approximately an 8 percent rate between February 1986 and February 1987. The transportation index is also on the rise again, given the sharp increase in gasoline prices since year end.

## THE 1987 CONSUMER PRICE INDEX REVISION

The Consumer Price Index (CPI) is a measure of the average change in prices paid by consumers for a fixed market basket of goods and services. The uses of the CPI--as a measure of inflation, as an income or benefits escalator, or as a deflator for statistical series--require that it be representative and current. A new CPI market basket is typically introduced about once every 10 years with the most recent change occurring in January 1987. The previous revision in the CPI was in 1978 when the market basket of goods was changed to reflect spending patterns in 1972-73.

The revision has accomplished a number of main objectives. First, it has updated the market basket of goods and expenditure weights. Second, the sample of outlets surveyed has been updated and previously unpriced items have been included. Third, the number of geographic areas has increased from 85 to 91. Finally, statistical techniques used to calculate various CPI components and operating procedures were improved. The result is a CPI which more accurately measures changes in the price level of goods and services purchased in the 1980s.

With the January 1987 revision, the market basket of goods is based on spending patterns determined by a consumer expenditure survey taken from 1982 through 1984. The expenditure for each item is determined basically from the price of the item multiplied by the quantity consumed, and expressed as a percentage of total expenditures for all items.

Consumption patterns change for a myriad of reasons. Available goods and services depend on technological innovations, and the cost of labor and capital. What is consumed and the quantity hinges on lifestyles, tastes, population distribution, demographics, and prices. The recent

revision reflects the different influences that these supply and demand factors have had on spending patterns over the decade. For example, gasoline prices began to soar in 1973-74 due to the Arab oil embargo. Consumers responded by buying more fuel efficient cars. Gasoline consumption dropped significantly. By 1982-84, the quantity of motor fuel consumed by the average "consumer unit" was about 23 percent less than in 1972-73. The price, on the other hand, was up 218 percent. The net result was an increase in dollars spent on motor fuel in relation to total expenditures: from 4.064 cents of every dollar to 4.8 cents. The price increase more than offset the reduced quantity consumed.

There are other examples. An increased emphasis on health and physical fitness, for example, has led to lower consumption of fats, oils, sugar, sweets and beef. Poultry is now weighted more heavily, and new indexes have been created for athletic club memberships and fees for participation sports. The impact of technology on households is seen in the inclusion of video recorders, personal computers, smoke detectors, and telephones, none of which were purchased on a wide scale in the early 1970s.

The revision also provided an opportunity to move items from one expenditure category to another, or to price previously difficult to price items--found in the "unpriced" categories of the index. There have also been new imputations for existing items. For example, the definition of lodging away from home has been expanded to include an imputed value of owners' use of their vacation property.

The housing component of the CPI has always drawn much attention, especially in the computation of the homeowners' cost index. In 1983, that portion of the housing



index was changed to an "owners' equivalent rent" basis. Mortgage payments were seen more as a measure of investment than consumption. Instead of using mortgage payments, owners were asked to estimate what their homes would rent for.

With the 1987 revision, the owners' equivalent rent estimation has been improved by selecting renters explicitly to represent owners. Matching sets of renter and owner occupied units were selected for the survey. Another improvement was made in the residential rent index, by eliminating a bias from the imputation of vacant units.

Table 1 compares the change in the expenditure weights, as established by the consumer expenditure surveys in 1972-73 and 1982-84. Only selected items as listed

under the seven major categories; they will not add to the total weight of that category.

Demographic factors have also played a role in the revision. The percentage of dual-earner households with both spouses present increased from 43.6 percent in 1970 to 59.6 percent in 1983. The number of single-parent households also rose over that time. As a result, the number of children in day care centers has increased to about 7 million. The cost of day care has become a new item in the index. Another effect of the increase in two-earner households is the increase in food consumed away from home.

The discussion so far has centered on the All Urban Consumers index the -- CPI-U -- which reflects spending patterns of all

TABLE 1

| <u>Expenditure group</u>      | <u>Expenditure weight<br/>1972-73</u> | <u>Expenditure weight<br/>1982-84</u> |
|-------------------------------|---------------------------------------|---------------------------------------|
| All items                     | 100.000                               | 100.000                               |
| Food and beverages            | 20.562                                | 17.840                                |
| Food at home                  | 13.513                                | 10.138                                |
| Food away from home           | 5.714                                 | 6.145                                 |
| Housing                       | 38.215                                | 42.637                                |
| Owners' equivalent rent       | 15.133                                | 18.175                                |
| Renters' cost                 | 7.353                                 | 7.485                                 |
| House furnishings             | 5.203                                 | 4.974                                 |
| Gas and electricity           | 3.030                                 | 4.617                                 |
| Apparel and upkeep            | 7.498                                 | 6.524                                 |
| Transportation                | 19.065                                | 18.696                                |
| New vehicles                  | 4.775                                 | 5.497                                 |
| Used vehicles                 | 2.805                                 | 1.271                                 |
| Motor fuel                    | 4.064                                 | 4.800                                 |
| Automobile insurance          | 2.130                                 | 1.724                                 |
| Public transportation         | 1.278                                 | 1.393                                 |
| Medical care                  | 5.003                                 | 4.796                                 |
| Medical care services         | 3.988                                 | 3.850                                 |
| Entertainment                 | 4.814                                 | 4.380                                 |
| Other goods and services      | 4.843                                 | 5.128                                 |
| Personal educational expenses | 1.547                                 | 2.772                                 |

urban consumers, without regard to income or employment status. The CPI-U covers about 80 percent of the population: wage earners, professional, managerial and technical workers, short-term and self-employed workers, unemployed persons, retirees and others not in the labor force.

The wage earners index, or CPI-W, which was the only series until 1978, covers about 32 percent of the population. It is based on urban consumers who meet additional income and employment requirements: more than one-half of the consumer unit's income must be earned from clerical or wage occupations, and at least one of the members has to have been employed for 37 or more weeks in an eligible occupation during the last 12 months. Neither index covers rural consumers, military personnel or individuals in institutions. The more comprehensive all urban index is preferred for most purposes, although there are still agreements which specifically refer to the wage earner series.

The two indexes are still being continued with the latest revision. There are substantial differences in the demographic characteristics of their respective populations. Table 2 shows some of these changes between 1972-73 and 1982-84.

The inclusion of the retired population in the all urban CPI category, for instance, accounts for the smaller size of the consumer unit and the lower number of earners, compared to that in the wage earner CPI. Retirees, students and the unemployed contribute to the lower per capita income figure for the all urban index population.

### Comparability of Indexes

As in prior revisions, the Bureau of Labor Statistics (BLS) facilitated the transition from the old to new index by linking the two series at December 1986: the December figure is the same for both. In addition, the Bureau will continue to publish the old indexes for the U.S. and each metropolitan area through June. For the first two months of 1987, changes in the revised all urban index for the U.S. and California areas were slightly less than those on the old basis. This was due in large part to the improved method of estimating shelter costs.

Comparisons should, ideally, be made on a similar basis. This presents no problems through June of this year. After that, only the revised index will be available. The change for the 1987 calendar year -- which will be based on the revised index

TABLE 2  
Demographic Characteristics of the Former and Revised  
CPI Populations

| <u>Characteristic</u>           | <u>Former</u> |                    | <u>Revised</u> |                    |
|---------------------------------|---------------|--------------------|----------------|--------------------|
|                                 | <u>Urban</u>  | <u>Wage earner</u> | <u>Urban</u>   | <u>Wage Earner</u> |
| Income before taxes             | \$12,332      | \$13,008           | \$23,183       | \$24,057           |
| Per capita income before taxes  | \$4,404       | \$4,065            | \$8,917        | \$8,019            |
| Size of consumer unit (persons) | 2.8           | 3.2                | 2.6            | 3.0                |
| Age of reference person         | 47.3          | 42.1               | 46.2           | 40.3               |
| Number of:                      |               |                    |                |                    |
| Earners                         | 1.3           | 1.7                | 1.4            | 1.8                |
| Children                        | 1.0           | 1.2                | .7             | .8                 |
| Percent reporting homeownership | 55.8          | 56.8               | 59.5           | 57.4               |
| Sex of reference person:        |               |                    |                |                    |
| Male                            | 75.9          | 83.8               | 66.5           | 71.9               |
| Female                          | 24.1          | 16.2               | 35.1           | 26.1               |



for 1987 versus the old index for 1986 -- will not be technically accurate. The difference from the change which would be obtained if consistent indexes were compared is not likely to be significant, however.

#### California CPI revision

The California CPI has also been revised. The revision was necessitated by the change in reporting frequency of the San Francisco CPI from bimonthly to monthly and the San Diego CPI from bimonthly to semiannual.

Until now, the San Francisco-Oakland CPI region consisted of Alameda, Contra Costa, Marin, San Mateo, and San Francisco counties. The area was expanded significantly with the 1987 revision with the addition of Santa Clara County -- the San Jose metropolitan statistical area -- and Santa Cruz, Solano, Sonoma, and Napa counties. The Los Angeles-Long Beach-Anaheim region was also expanded to include San Bernardino, Riverside, and Ventura counties.

Due to the expanded areas covered by the San Francisco CPI, it became the fifth largest area in the U.S., replacing Detroit, Michigan. Monthly figures are published for only the five largest urban areas. The San Francisco region was therefore shifted to a monthly reporting basis, while Detroit went to a bimonthly schedule. San Diego was one of 12 metropolitan areas that moved from a bimonthly to a semiannual reporting frequency.

The California CPI has been modified to reflect these changes. It is now reported on a monthly basis, rather than bimonthly, and is based on the Los Angeles and San Francisco CPI indexes. The San Diego index was, of necessity, dropped from the calculation.

The California CPI is a weighted average of the individual BLS indexes for urban areas, with weights based on relative population shares. The new weights for San Francisco and Los Angeles therefore reflect both the unavailability of a San Diego index and the increased size of the

TABLE 3  
Comparison of Old and New Weights  
for the California CPI  
(Percent)

|                  |               | <u>New basis</u> | <u>Old basis</u> |
|------------------|---------------|------------------|------------------|
| California CPI-U | Los Angeles   | 69               | 65               |
|                  | San Francisco | 31               | 25               |
|                  | San Diego     | --               | 10               |
|                  |               | <u>100</u>       | <u>100</u>       |
| California CPI-W | Los Angeles   | 71               | 67               |
|                  | San Francisco | 29               | 25               |
|                  | San Diego     | --               | 8                |
|                  |               | <u>100</u>       | <u>100</u>       |

Source: California Department of Industrial Relations

San Francisco area relative to that of the Los Angeles area.

There is one technical problem with the new California index: it is not linked to the old CPI for the State. The San Diego index was running at a considerably higher level than either the San Francisco or Los Angeles indexes. When it is excluded, the weighted average of the two remaining indexes produces a lower index figure. Recalculating December 1986 with the new population weights for just San Francisco and Los Angeles and comparing the result

with the original figure for the California CPI yields a 1.5 percent difference.

The problem of comparability is highlighted by a comparison of changes in published data from December 1986 to January 1987. Both the San Francisco and Los Angeles indexes increased; the California CPI fell. Until an acceptable methodology linking the series has been found, year-over-year and month-to-month comparisons between the two series will not be meaningful for the California CPI.

EMPLOYMENT  
(Seasonally Adjusted)

|                                                                      | 1987     |          | 1986     |          | 1986     | Percent<br>Change<br>Feb 1986-<br>Feb 1987 |
|----------------------------------------------------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                                                                      | Feb      | Jan      | Dec      | Nov      | Feb      |                                            |
| Civilian Employment (000)                                            | 12,779   | 12,568   | 12,569   | 12,625   | 12,300   | 3.9                                        |
| Unemployment (000)                                                   | 847      | 835      | 907      | 915      | 954      | -11.2                                      |
| Unemployment rate                                                    | 6.2      | 6.2      | 6.7      | 6.8      | 7.2      | --                                         |
| Nonagricultural wage<br>and salary<br>employment <sup>a/</sup> (000) | 11,471.3 | 11,435.9 | 11,366.4 | 11,342.4 | 11,144.1 | 2.9                                        |
| Mining                                                               | 37.2     | 37.7     | 37.5     | 38.2     | 47.5     | -21.7                                      |
| Construction                                                         | 566.1    | 560.5    | 549.8    | 544.9    | 509.1    | 11.2                                       |
| Manufacturing                                                        | 2,053.9  | 2,057.0  | 2,050.6  | 2,047.8  | 2,062.5  | -0.4                                       |
| Aerospace <sup>b/</sup>                                              | 749.3    | 751.4    | 753.6    | 751.4    | 747.6    | 0.2                                        |
| Transportation and<br>Public utilities                               | 589.5    | 587.6    | 583.9    | 582.0    | 572.9    | 2.9                                        |
| Trade                                                                | 2,769.7  | 2,753.2  | 2,736.1  | 2,736.9  | 2,672.9  | 3.6                                        |
| Finance, insurance<br>and real estate                                | 778.9    | 777.9    | 773.3    | 770.8    | 749.6    | 3.9                                        |
| Services                                                             | 2,816.5  | 2,803.9  | 2,779.4  | 2,770.2  | 2,707.1  | 4.0                                        |
| Government                                                           |          |          |          |          |          |                                            |
| Federal                                                              | 346.0    | 346.4    | 344.0    | 343.7    | 349.6    | -1.0                                       |
| State & local                                                        | 1,513.3  | 1,511.7  | 1,511.8  | 1,507.9  | 1,472.9  | 2.7                                        |

<sup>a/</sup> Interim series of wage and salary workers. This unofficial series is adjusted for the latest tabulations of unemployment insurance coverage and approximates what the official data will be when estimates are updated at year end.

<sup>b/</sup> The Interim Series does not give a breakdown for aerospace employment. These values are from the EDD official employment series, and are not seasonally adjusted.

HOURS AND EARNINGS IN MANUFACTURING

|                         | 1987     |          | 1986     |          | 1986     | Percent<br>Change<br>Feb 1986-<br>Feb 1987 |
|-------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                         | Feb      | Jan      | Dec      | Nov      | Feb      |                                            |
| Average weekly hours    | 40.0     | 40.0     | 40.9     | 40.7     | 40.0     | --                                         |
| Average weekly earnings | \$424.80 | \$425.20 | \$432.31 | \$427.35 | \$410.00 | 3.6                                        |
| Average hourly earnings | \$10.62  | \$10.63  | \$10.57  | \$10.50  | \$10.25  | 3.6                                        |

TRADE  
(Seasonally Adjusted)

|                                    | 1987       |            | 1986       |            | 1985       | Percent<br>Change<br>Jan 1986-<br>Jan 1987 |
|------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                    | <u>Jan</u> | <u>Dec</u> | <u>Nov</u> | <u>Oct</u> | <u>Jan</u> |                                            |
| Retail sales (millions)            | n.a.       | 15,604     | 14,469     | 15,037     | 14,550     | --                                         |
| New auto registrations<br>(number) | 131,400    | 122,903    | 97,728     | 136,492    | 120,983    | 8.6                                        |

CONSUMER PRICE INDEX  
(1967 = 100)

|                                           | 1987       |            | 1986       |            | 1986       | Percent<br>Change<br>Feb 1987-<br>Feb 1986 |
|-------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                           | <u>Feb</u> | <u>Jan</u> | <u>Dec</u> | <u>Nov</u> | <u>Feb</u> |                                            |
| All Urban Series                          |            |            |            |            |            |                                            |
| California Average                        | 341.9      | 338.4      | 341.1      | --         | --         | --                                         |
| San Francisco                             | 348.8      | 345.8      | 343.6      | --         | 341.1      | 2.3                                        |
| Los Angeles                               | 338.8      | 335.1      | 332.9      | 333.8      | 326.6      | 3.7                                        |
| San Diego                                 | --         | --         | --         | 387.5      | 381.9      | --                                         |
| Wage Earner and Clerical<br>Worker Series |            |            |            |            |            |                                            |
| California Average                        | 334.4      | 330.8      | 330.1      | --         | 326.1      | --                                         |
| San Francisco                             | 342.2      | 339.0      | 337.0      | --         | 336.0      | 1.8                                        |
| Los Angeles                               | 331.2      | 327.4      | 325.3      | 326.3      | 320.4      | 3.4                                        |
| San Diego                                 | --         | --         | --         | 349.0      | --         | --                                         |

PRODUCTION

|                                                              | 1987       |            | 1986       |            | 1986       |
|--------------------------------------------------------------|------------|------------|------------|------------|------------|
|                                                              | <u>Jan</u> | <u>Dec</u> | <u>Nov</u> | <u>Oct</u> | <u>Jan</u> |
| Petroleum (000 barrels daily)                                | n.a.       | n.a.       | 1,073      | 1,064      | 1,186      |
| Portland cement (000 short tons)                             | 697.9      | 813.3      | 766.4      | 1,001.9    | 733.3      |
| Selected redwood and whitewood<br>mill production (mil. FBM) | 80.2       | 72.2       | 68.1       | 90.6       | 59.3       |

n.a. Not available

# CONSTRUCTION

|                                | 1987       |            | 1986       |            | 1986       | Percent<br>Change<br>Jan 1986-<br>Jan 1987 |
|--------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                | <u>Jan</u> | <u>Dec</u> | <u>Nov</u> | <u>Oct</u> | <u>Jan</u> |                                            |
| Private Residential            |            |            |            |            |            |                                            |
| Housing Units                  |            |            |            |            |            |                                            |
| Authorized (000) <sup>a/</sup> | 288.4      | 522.1      | 306.6      | 352.1      | 279.8      | 3.1                                        |
| Single Units                   | 145.1      | 254.2      | 143.3      | 155.8      | 113.2      | 28.2                                       |
| Multiple Units                 | 143.3      | 267.9      | 163.3      | 196.3      | 166.6      | -14.0                                      |
| Residential Building           |            |            |            |            |            |                                            |
| Authorized Valuation           |            |            |            |            |            |                                            |
| (millions) <sup>b/</sup>       | \$2,037    | \$3,003    | \$1,763    | \$2,160    | \$1,653    | 23.2                                       |
| Nonresidential Building        |            |            |            |            |            |                                            |
| Authorized Valuation           |            |            |            |            |            |                                            |
| (millions) <sup>b/</sup>       | \$1,152    | \$1,517    | \$1,193    | \$1,131    | \$1,297    | -11.2                                      |
| Nonresidential Building        |            |            |            |            |            |                                            |
| Authorized Valuation           |            |            |            |            |            |                                            |
| (millions) <sup>c/</sup>       | \$926      | \$1,379    | \$1,051    | \$1,266    | \$1,041    | -11.0                                      |
| Commercial                     | \$324      | \$596      | \$447      | \$550      | \$532      | -39.1                                      |
| Industrial                     | \$157      | \$283      | \$159      | \$204      | \$142      | 10.6                                       |
| Other                          | \$108      | \$188      | \$170      | \$175      | \$112      | -3.6                                       |
| Alterations & Additions        | \$338      | \$311      | \$276      | \$337      | \$256      | 32.0                                       |

<sup>a/</sup> Seasonally adjusted annual rate.

<sup>b/</sup> Seasonally adjusted.

<sup>c/</sup> Not adjusted for seasonal variation.

## VACANCY RATES FOR DECEMBER 1986 (Percent)

|                               | Office       |                 |                 | Industrial |
|-------------------------------|--------------|-----------------|-----------------|------------|
|                               | <u>Total</u> | <u>Downtown</u> | <u>Suburban</u> |            |
| Northern & Central California |              |                 |                 | 5.5        |
| Oakland - East Bay            | 28.3         | 19.1            | 31.4            |            |
| Sacramento                    | 21.3         | 11.3            | 24.8            |            |
| San Francisco                 | 19.4         | 18.1            | 21.4            |            |
| San Jose                      | 26.6         | 18.9            | 28.2            |            |
| Southern California           |              |                 |                 | 5.3        |
| Los Angeles                   | 17.3         | 15.0            | 17.3            |            |
| Orange County                 | 22.7         | n.a.            | n.a.            |            |
| San Diego                     | 23.1         | 17.0            | 26.6            |            |
| National Average              | 21.5         | 16.4            | 23.8            | 5.8        |

# LEADING INDICATORS

|      |     | <u>Manufacturing</u> |                     | <u>Help</u>        |
|------|-----|----------------------|---------------------|--------------------|
|      |     | <u>Overtime</u>      | <u>Average</u>      | <u>Wanted Ads,</u> |
|      |     | <u>Hours</u>         | <u>Weekly Hours</u> | <u>Los Angeles</u> |
| 1985 | Dec | 3.4                  | 40.4                | 119,582            |
| 1986 | Jan | 2.9                  | 39.4                | 117,139            |
|      | Feb | 3.4                  | 40.1                | 119,322            |
|      | Mar | 3.5                  | 40.5                | 118,988            |
|      | Apr | 3.4                  | 40.4                | 119,057            |
|      | May | 3.4                  | 40.2                | 115,165            |
|      | Jun | 3.4                  | 40.3                | 121,497            |
|      | Jul | 3.4                  | 40.2                | 118,313            |
|      | Aug | 3.5                  | 40.1                | 120,722            |
|      | Sep | 3.3                  | 40.3                | 121,504            |
|      | Oct | 3.4                  | 40.3                | 118,755            |
|      | Nov | 3.3                  | 40.4                | 126,278            |
|      | Dec | 3.3                  | 40.1                | 120,128            |
| 1987 | Jan | 3.3                  | 40.2                | 122,840            |

|      |     | <u>Unemployment</u>   | <u>Housing Unit</u>   | <u>New</u>            |
|------|-----|-----------------------|-----------------------|-----------------------|
|      |     | <u>Insurance</u>      | <u>Authorizations</u> | <u>Business</u>       |
|      |     | <u>Initial Claims</u> | <u>(Thousands)</u>    | <u>Incorporations</u> |
| 1985 | Dec | 66,756                | 225.9                 | 5,276                 |
| 1986 | Jan | 65,018                | 279.8                 | 5,609                 |
|      | Feb | 63,769                | 249.7                 | 5,497                 |
|      | Mar | 64,881                | 293.7                 | 5,359                 |
|      | Apr | 61,219                | 279.2                 | 5,925                 |
|      | May | 59,002                | 274.0                 | 5,122                 |
|      | Jun | 59,863                | 273.0                 | 5,425                 |
|      | Jul | 61,056                | 280.4                 | 5,732                 |
|      | Aug | 58,902                | 262.7                 | 4,645                 |
|      | Sep | 60,069                | 303.2                 | 6,084                 |
|      | Oct | 55,164                | 352.1                 | 5,480                 |
|      | Nov | 54,606                | 306.6                 | 4,799                 |
|      | Dec | 59,450                | 522.1                 | 5,911                 |

| California Index of Leading<br>Economic Indicators |     |       |     |       |     |       |
|----------------------------------------------------|-----|-------|-----|-------|-----|-------|
| 1985                                               | Dec | 142.0 | Apr | 143.5 | Sep | 144.3 |
|                                                    |     |       | May | 143.4 | Oct | 145.1 |
| 1986                                               | Jan | 139.2 | Jun | 144.2 | Nov | 146.7 |
|                                                    | Feb | 142.0 | Jul | 143.6 | Dec | 146.3 |
|                                                    | Mar | 143.3 | Aug | 143.2 |     |       |

Note: All data seasonally adjusted.



# COINCIDENT INDICATORS

|      |     | <u>Nonagricultural<br/>Employment<br/>(Thousands)</u> | <u>Manufacturing<br/>Employment<br/>(Thousands)</u> | <u>Unemployment<br/>Rate<br/>(Thousands)</u> | <u>Insured<br/>Unemployment<br/>Average<br/>Weeks Claimed<br/>(Thousands)</u> |
|------|-----|-------------------------------------------------------|-----------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------|
| 1986 | Apr | 11,224                                                | 2,066                                               | 6.8                                          | 405                                                                           |
|      | May | 11,247                                                | 2,061                                               | 6.7                                          | 389                                                                           |
|      | Jun | 11,245                                                | 2,060                                               | 6.6                                          | 392                                                                           |
|      | Jul | 11,260                                                | 2,048                                               | 7.0                                          | 393                                                                           |
|      | Aug | 11,270                                                | 2,040                                               | 6.6                                          | 384                                                                           |
|      | Sep | 11,291                                                | 2,028                                               | 6.4                                          | 392                                                                           |
|      | Oct | 11,315                                                | 2,043                                               | 6.6                                          | 377                                                                           |
|      | Nov | 11,342                                                | 2,048                                               | 6.8                                          | 378                                                                           |
|      | Dec | 11,366                                                | 2,051                                               | 6.7                                          | 389                                                                           |
| 1987 | Jan | 11,436                                                | 2,057                                               | 6.2                                          | 357                                                                           |
|      | Feb | 11,471                                                | 2,054                                               | 6.2                                          | 368                                                                           |

|      |         | <u>Personal<br/>Income<br/>(Millions)</u> | <u>Wages &amp; Salaries from<br/>Mining, Construction &amp;<br/>Manufacturing<br/>(Millions)</u> | <u>Taxable Sales<br/>(Millions)</u> |
|------|---------|-------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------|
| 1986 | Qtr I   | \$444,552                                 | \$69,896                                                                                         | \$52,726                            |
|      | Qtr II  | \$451,568                                 | \$71,358                                                                                         | \$53,540                            |
|      | Qtr III | \$452,613                                 | \$71,021                                                                                         | \$54,041                            |
|      | Qtr IV  | \$461,314                                 | \$72,268                                                                                         | n.a.                                |

# OTHER INDICATORS

|         |        | <u>DOD Prime Contracts<br/>(Millions)</u> |      |        | <u>Electricity Production<br/>(Million Kwh)</u> |
|---------|--------|-------------------------------------------|------|--------|-------------------------------------------------|
| 1985    | Qtr I  | 7,941                                     | 1986 | Jan    | 10,420                                          |
|         |        |                                           |      | Feb    | 10,190                                          |
|         | Qtr II | 4,057                                     |      | Mar    | 10,972                                          |
|         |        |                                           |      | Apr    | 11,030                                          |
| Qtr III | 8,526  | May                                       |      | 11,013 |                                                 |
|         |        | Jun                                       |      | 10,759 |                                                 |
| Qtr IV  | 7,828  | Jul                                       |      | 10,041 |                                                 |
|         |        | Aug                                       |      | 10,003 |                                                 |
|         |        | Sep                                       |      | 9,115  |                                                 |
| 1986    | Qtr I  | 8,173                                     |      | Oct    | 9,897                                           |
|         |        |                                           |      | Nov    | 9,607                                           |
|         |        |                                           |      | Dec    | 9,169                                           |
|         |        |                                           |      |        |                                                 |

Note: All data seasonally adjusted.

## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are production worker man-hours, insured unemployment, manufacturing employment, and taxable sales. These series are discussed in the technical note below.

### TECHNICAL NOTE

Whenever appropriate, data used in the charts have been seasonally adjusted. The series on average weekly hours of production workers in manufacturing and production worker man-hours are adjusted by the Bureau of Labor Statistics method. Other series have been adjusted by the Bureau of the Census (Shiskin) method. Persons interested in a detailed description of these methods are referred to the U.S. Department of Labor, Bureau of Labor Statistics, the BLS Seasonal Factor Method (1964); and the U.S. Department of Commerce, Bureau of the Census, Technical Paper No. 15, The X-11 Variant of the Census Method II. Seasonal Adjustment Program (November 1965).

Under the Census Bureau seasonal method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

#### Production Worker Man-Hours

This series is a substitute for the man-hours in nonagricultural establishments series used in the Census Bureau's publication, Business Cycle

Developments. It is the cross product of average weekly hours of production workers in manufacturing and manufacturing employment. Workweek data are a leading indicator. Manufacturing employment appears to be a coincident indicator, although at times it seems to lead economic downturns. Because of this, the man-hours series has been classified in the present publication as a leading indicator.

#### Insured Unemployment

The series on total insured unemployment is being used rather than the insured unemployment rate included in the Census Bureau's indicator list. The insured rate is available only with a lag of nine months, which precludes its usefulness as a current indicator.

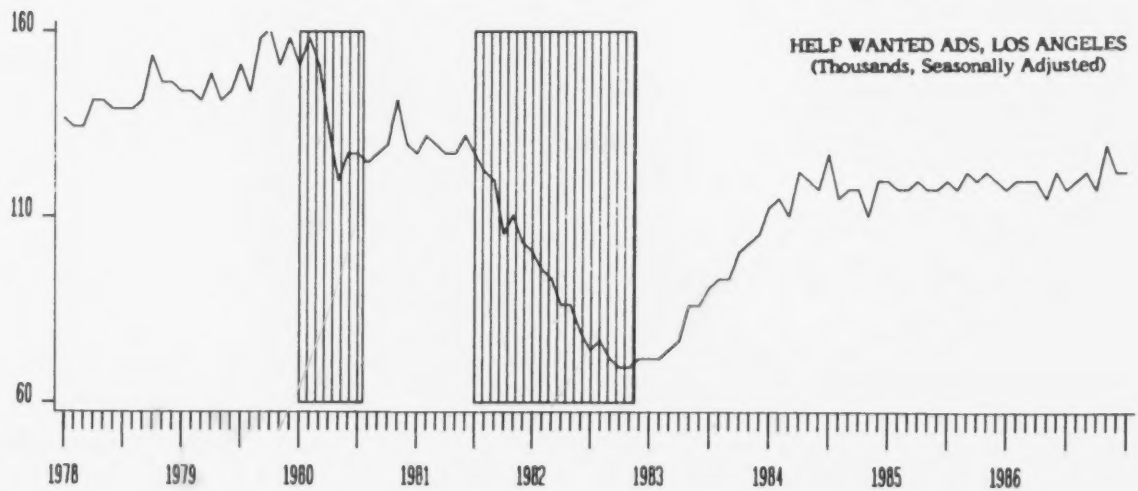
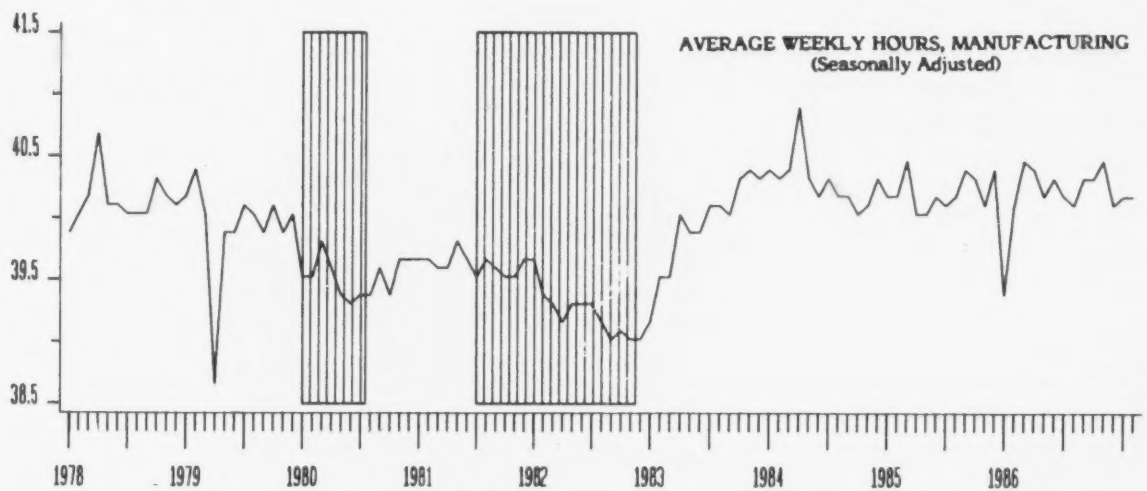
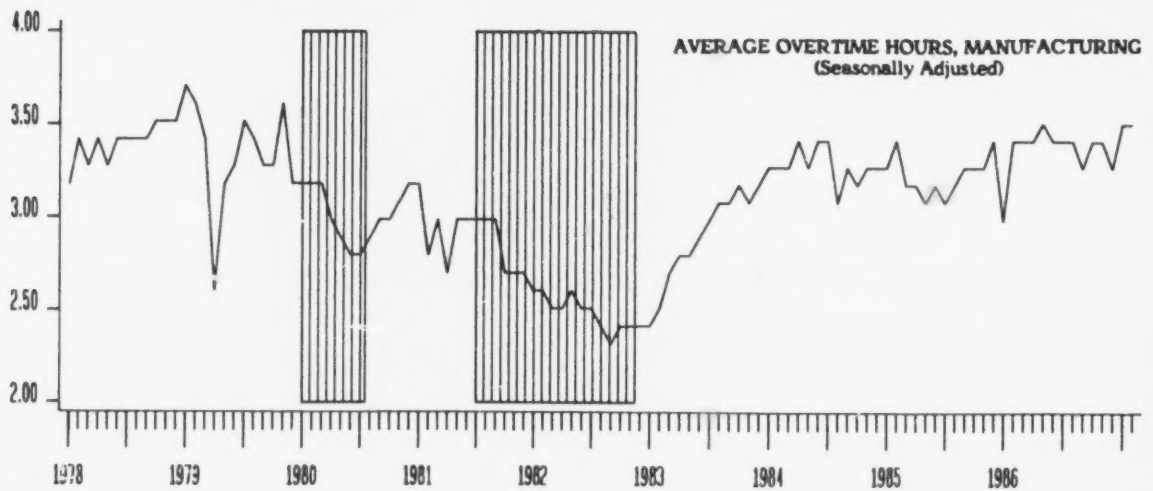
#### Manufacturing Employment

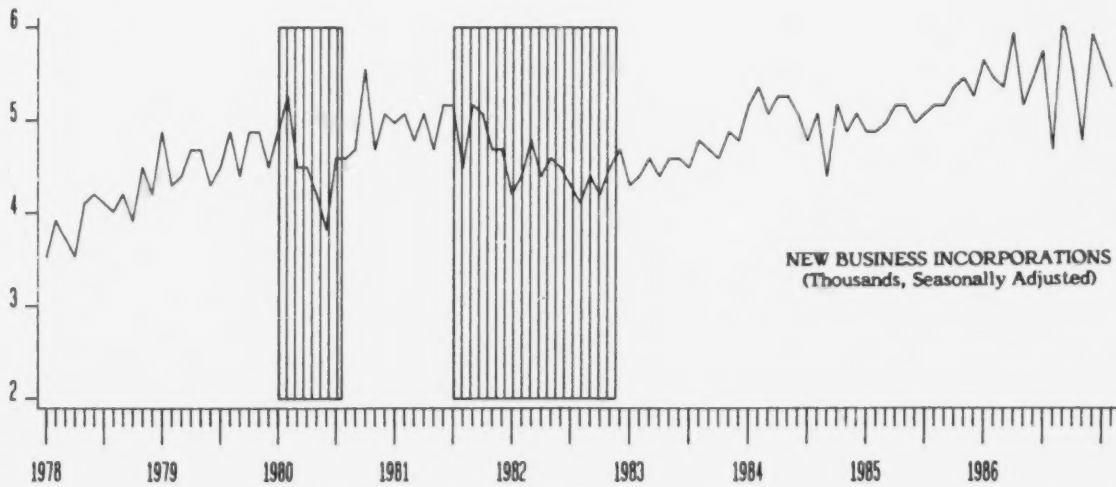
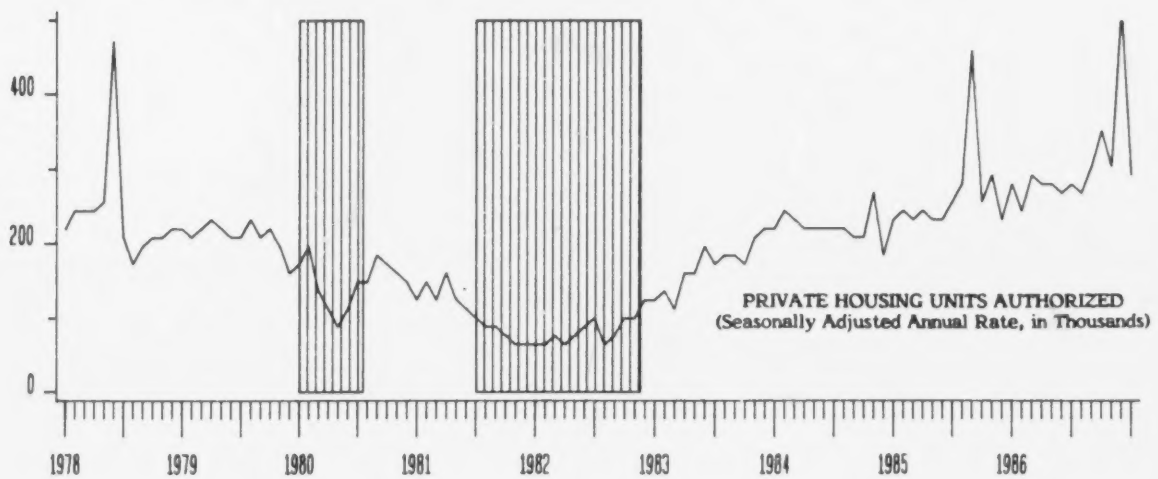
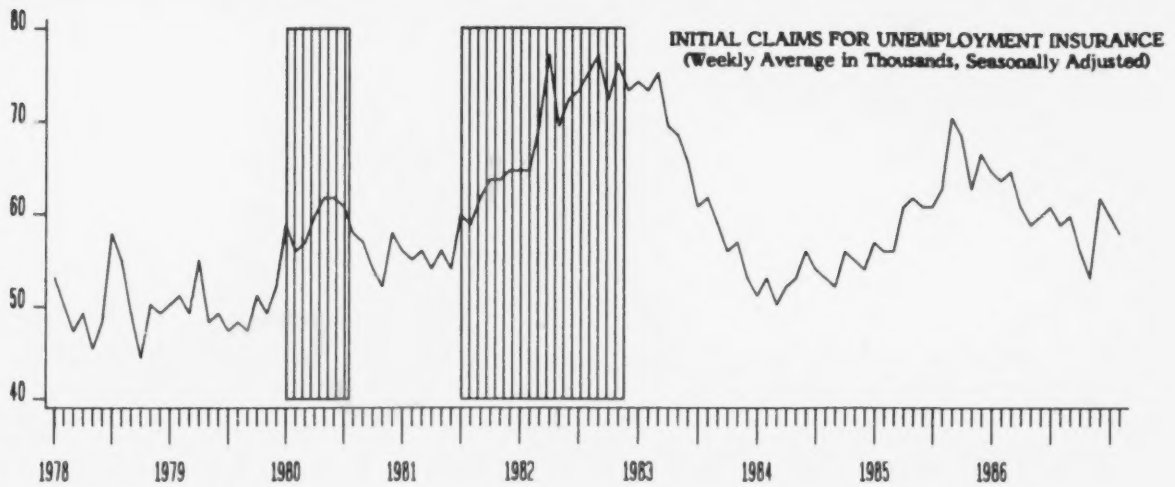
This series is also an addition to the Census Bureau indicator list. It was used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

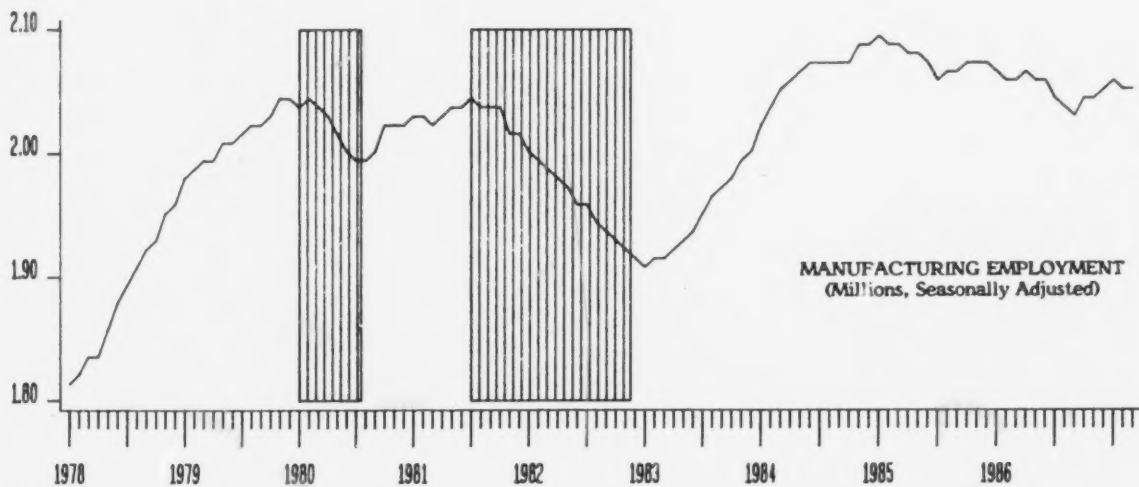
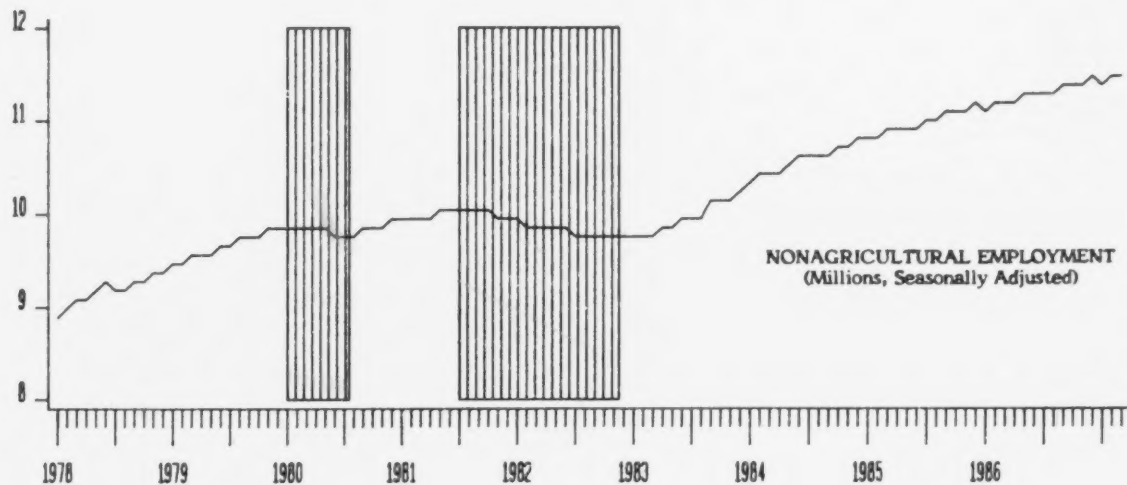
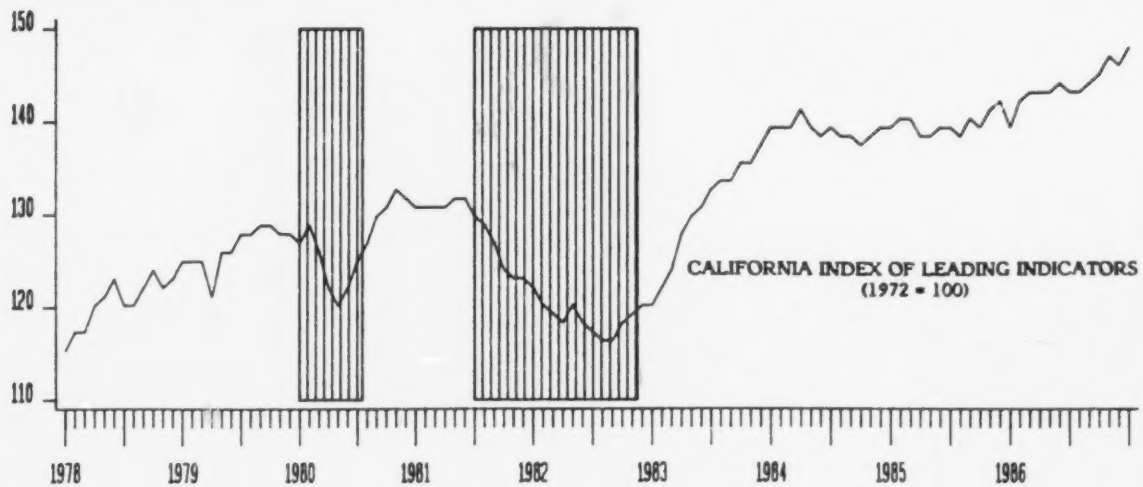
#### Taxable Sales

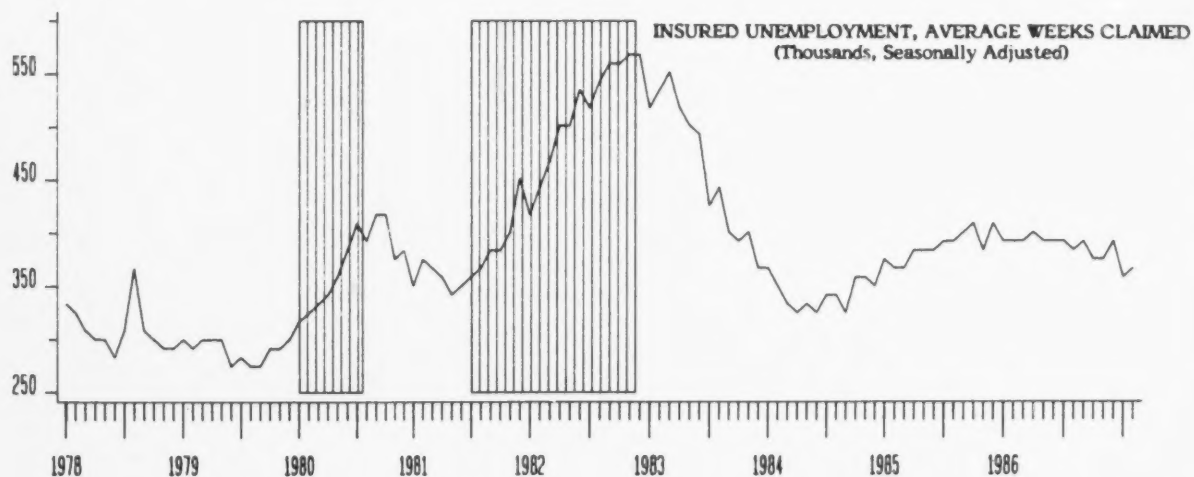
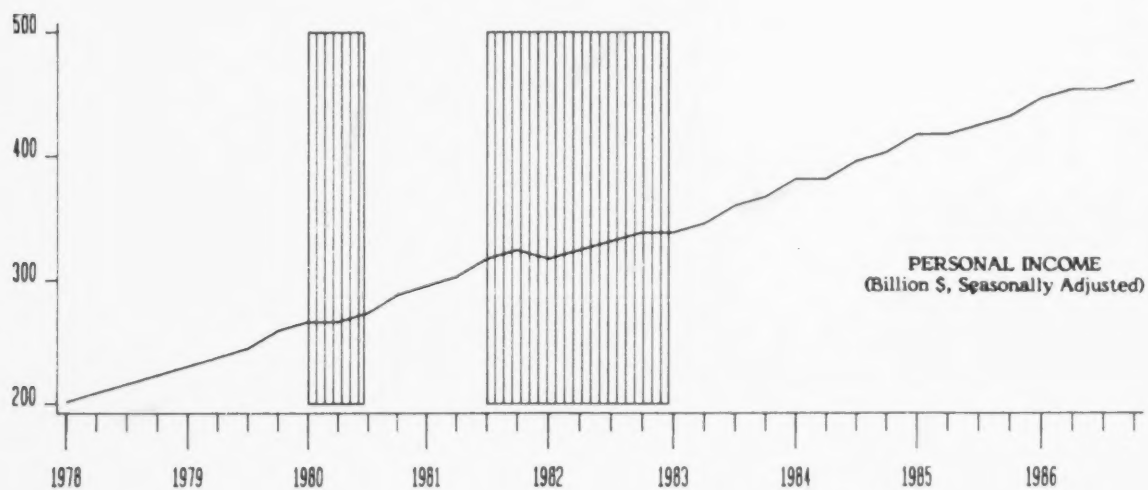
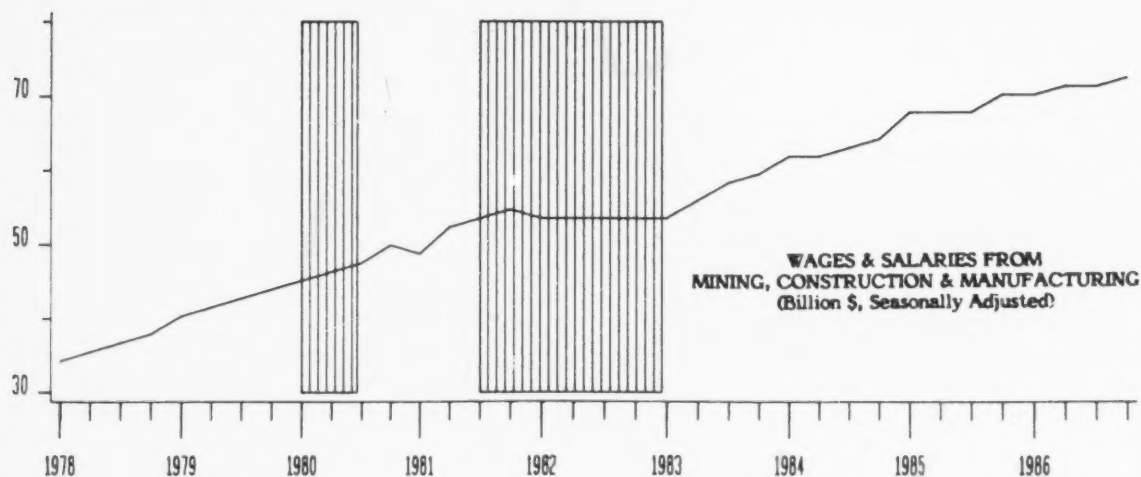
Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is therefore a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

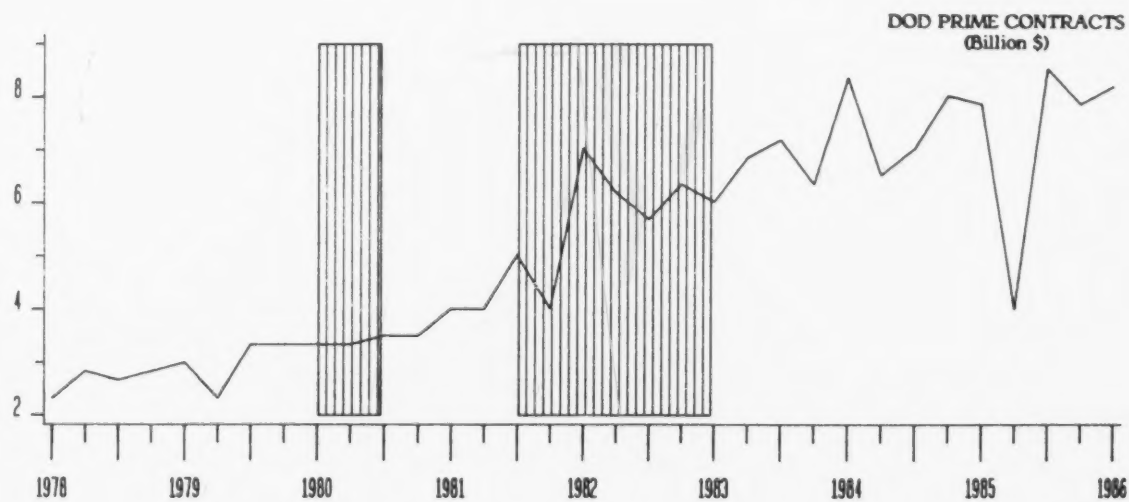
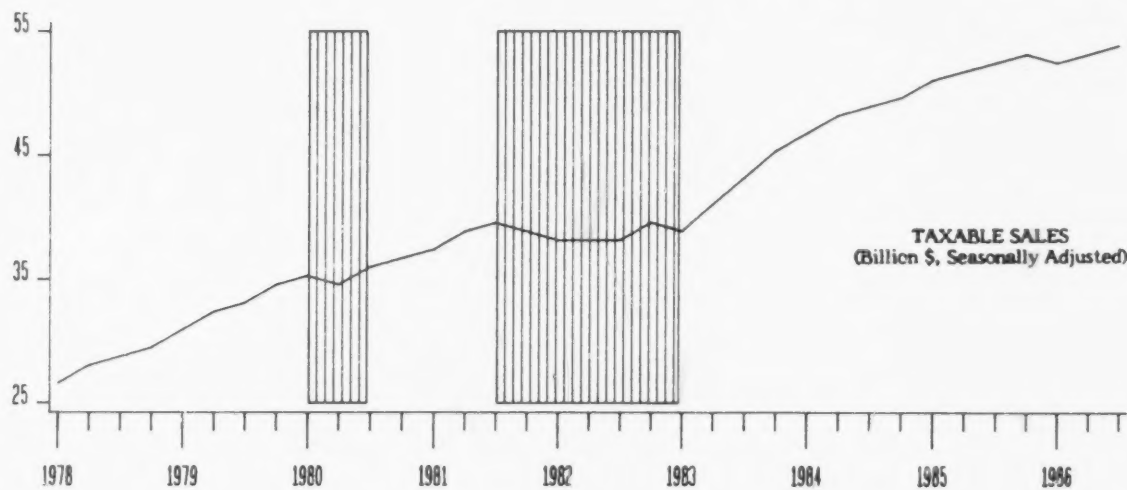


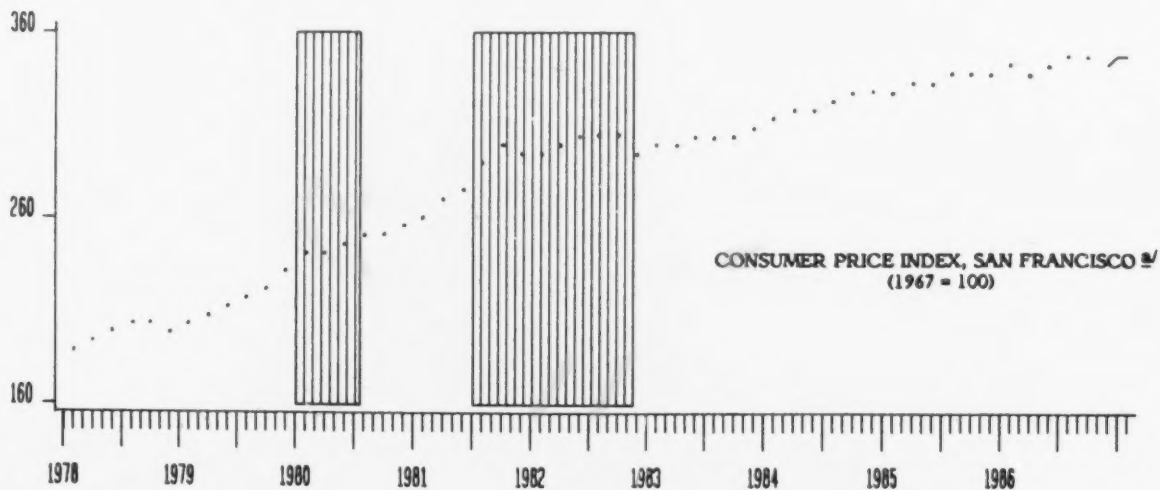
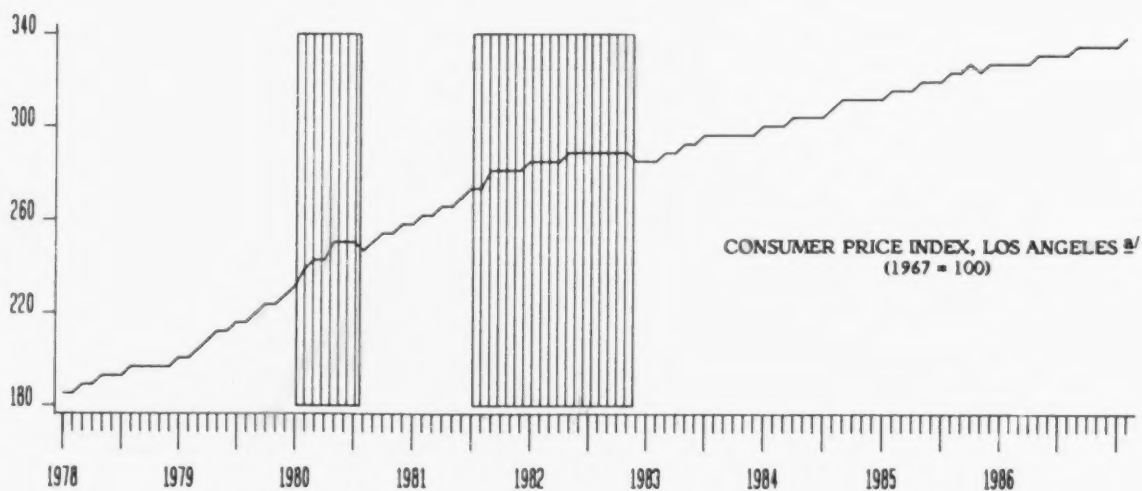
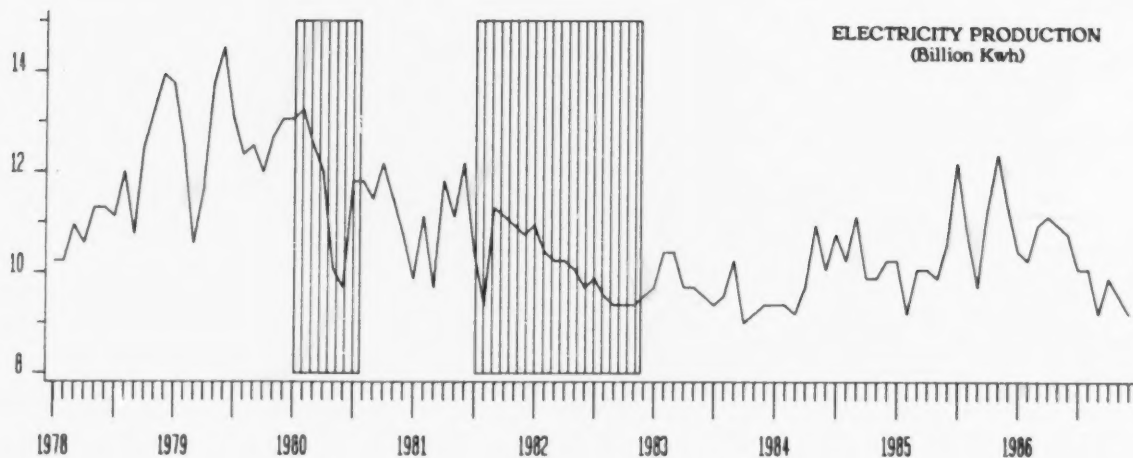












## CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national events of general interest have also been included.

| <u>1980</u> |                                                                                  | <u>1980--Continued</u> |                                                                                           |
|-------------|----------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------|
| February 25 | Prime rate raised to 16-1/2 percent.                                             | April 28               | FHA mortgages reduced to 13 percent.                                                      |
| February 27 | Ceilings on interest rates for government backed mortgages raised to 13 percent. |                        | Prime rate reduced to 18-1/2 percent.                                                     |
|             |                                                                                  | May 5                  | Prime rate reduced to 18 percent.                                                         |
| February 29 | Prime rate raised to 16-3/4 percent.                                             | May 7                  | Prime rate reduced to 17 percent.                                                         |
| March 4     | Prime rate raised to 17-1/4 percent.                                             | May 8                  | Discount rate surcharge reimposed.                                                        |
| March 7     | Prime rate raised to 17-3/4 percent.                                             | May 12                 | Prime rate reduced to 16-1/2 percent.                                                     |
| March 13    | Prime rate raised to 18-1/4 percent.                                             | May 19                 | Prime rate reduced to 16 percent.                                                         |
| March 14    | Announcement of tighter fiscal policies.                                         | May 28                 | Discount rate lowered to 12 percent. Some conventional mortgage rates fell to 12 percent. |
| March 17    | Three percent discount rate surcharge imposed.                                   |                        |                                                                                           |
| March 18    | Prime rate raised to 19 percent.                                                 | June 25                | Carpenters strike in Northern California ended.                                           |
| April 2     | Prime rate raised to 20 percent.                                                 | July 3                 | ICC begins trucking industry deregulation.                                                |
| April 3     | FHA mortgages raised to 14 percent.                                              | July 21-<br>October 23 | Motion picture and television industry strike.                                            |
| April 20    | Prime rate reduced to 19-1/2 percent.                                            |                        |                                                                                           |

# CHRONOLOGY--Continued

## 1980--Continued

July 22 Prime rate reduced to 11 percent.

July 25 Prime rate reduced to 10-3/4 percent.

July 28 Discount rate reduced to 10 percent.

August 5 Prime rate raised to 11 percent.

August 27 Prime rate raised to 11-1/2 percent.

September 5 FHA mortgage interest rate raised from 11-1/2 to 12 percent.

September 12 California mortgage rate raised from 13-1/2 percent to 13-3/4 percent.

September 25 Pacific Southwest Airlines (PSA) pilots strike begins.

September 26 Discount rate raised from 10 to 11 percent. Prime rate raised from 12-1/2 percent to 12-3/4 percent.

October 2 Prime raised from 13 to 13-1/2 percent.

October 3 Prime raised to 14 percent.

October 15 AFTA workers return to work.

October 30 Prime raised from 14 to 14-1/2 percent.

November 7 Prime raised from 14-1/2 to 15-1/2 percent.

November 14 PSA pilots strike ends.

## 1980--Continued

November 17 Prime raised to 16 1/4 percent. Discount rate raised from 11 to 12 percent and surcharge imposed.

November 21 Prime raised to 17 percent.

November 28 Prime raised to 17-3/4 percent.

December 3 Prime raised from 17-3/4 to 18-1/2 percent.

December 5 Discount rate raised from 12 to 13 percent. Prime raised to 19 percent.

December 11 Prime raised to 20 percent.

December 17 Prime raised from 20 to 21 percent.

December 23 Prime lowered from 21 to 20-1/2 percent.

## 1981

January 1 Minimum wage raised from \$3.10 to \$3.35.

January 6 Prime lowered to 20 percent.

January 20 American hostages released from Iran.

January 20 Ronald Reagan inaugurated as 40th President of the U.S.

January 28 Deregulation of oil and gas industry announced, effective immediately.

January 29 Prime rate lowered to 19-1/2 percent from 20 percent.

# CHRONOLOGY--Continued

| <u>1981--Continued</u> |                                                                                                 | <u>1981--Continued</u>    |                                                                            |
|------------------------|-------------------------------------------------------------------------------------------------|---------------------------|----------------------------------------------------------------------------|
| February 16            | General Motors and Ford rebate plans announced.                                                 | June 5                    | Dollar reaches highest level in international trading since December 1971. |
| February 23            | Prime rate lowered to 18 percent.                                                               | July 8                    | Prime rate raised to 20-1/2 percent.                                       |
| March 2                | Prime rate lowered to 18-1/2 percent.                                                           | August 3<br>Jan. 17, 1986 | Professional Air Traffic Controller's Organization strike.                 |
| March 10               | Prime rate lowered to 18 percent.                                                               | August 14                 | President Reagan signs both the tax- and budget-cut bills into law.        |
| March 16               | Prime rate lowered to 17-1/2 percent.                                                           | August 18                 | FHA-VA rate up to 16-1/2 percent from 15-1/2 percent.                      |
| March 18               | Prime rate lowered to 17 percent.                                                               | September 1               | Prime rate lowered to 20 percent.                                          |
| March 26-<br>June 8    | United mine workers strike.                                                                     | September 21              | Prime rate lowered to 19-1/2 percent.                                      |
| April 13               | Prime rate raised to 17-1/2 percent.                                                            | September 22              | Fed surcharge cut to 3 percent from 4 percent.                             |
| April 29               | Prime rate raised to 18 percent.                                                                | October                   | Introduction of All Savers Certificates to stimulate savings.              |
| May 4                  | Prime rate raised to 19 percent.                                                                | October 6                 | Prime rate lowered to 19 percent.                                          |
| May 5                  | Discount rate raised from 13 percent to 14 percent.                                             |                           | Egyptian President Sadat assassinated.                                     |
| May 8                  | FHA-VA rate up to 15-1/2 percent from 14-1/2 percent.                                           | October 13                | Prime rate lowered to 18 percent.                                          |
| May 11                 | Prime rate raised to 19-1/2 percent.                                                            | October 30                | OPEC price set at \$34.00/barrel--the Saudi benchmark.                     |
| May 22                 | Prime rate raised to 20 percent.                                                                | November 1                | Passbook interest rate raised 1/2 percent to 5-3/4 percent.                |
| May 27                 | OPEC fails to agree on a uniform price schedule. OPEC officials freeze prices at current level. |                           |                                                                            |

# CHRONOLOGY--Continued

## 1981--Continued

November 2 Fed discount rate cut from 14 percent to 13 percent.  
Prime rate lowered to 17-1/2 percent.

November 10 Prime rate lowered to 17 percent.

November 13 Prime rate lowered to 16-1/2 percent.  
FHA mortgage rate lowered to 15-1/2 percent.

November 16 Prime rate lowered to 16 percent.

November 17 Fed eliminates 2 percent surcharge. Discount rate unaffected.

December 1 Prime rate lowered to 15-1/2 percent.

December 4 Fed discount rate lowered from 13 percent to 12 percent.

December 12 Martial law imposed in Poland.

## 1982

January 22 Federal funds rate raised to 13-1/2 percent.

January 25 FHA mortgage rate increased from 15-1/2 percent to 16-1/2 percent.

January 27 Federal funds rate raised to 13-3/4 percent.

## 1982--Continued

February 2 Prime rate raised to 16-1/2 percent by Citibank and Crocker.

February 18 Prime rate increased to 17 percent.

February 24 Prime rate cut back to 16-1/2 percent.

March 1 Ford-UAW Pact ratified. Workers give up two weeks of paid time off and annual 3 percent raises.

March 8 Prime rate lowered to 16 percent.

March 16 Prime rate back up to 16-1/2 percent.

April 1 OPEC cuts production to 17.5 million barrels from current 18.2. Saudi bench mark set at \$34/barrels.

April 5 Unemployment rate nationally hits 9.0 percent tying the post-WW II high in May 1975.

April 12 General Motor and United Auto Workers labor agreement approved.

April 26 The U.S. consumer price index declined 0.3 percent--the first decline in 17 years and the largest drop in nearly a quarter of a century.

May 7 U.S. unemployment rate reaches 9.4 percent for a post-WW II record.



# CHRONOLOGY--Continued

## 1982--Continued

## 1982--Continued

May 13 Braniff Air Lines ceases operation.

June 25 Secretary of State Alexander Haig resigns.

June 28 U.S. Supreme Court rules that federally chartered savings and loan associations cannot be prohibited from enforcing due-on-sale clauses in their mortgage contracts.

July 20 Discount rate lowered from 12 percent to 11-1/2 percent. Prime rate lowered from 16-1/2 percent to 16 percent.

July 27 Prime rate lowered to 15-1/2 percent.

August 2 Discount rate lowered to 11 percent. Prime rate lowered to 15 percent.

August 9 Unemployment rate reached 9.8 percent in July--the highest level since a 9.9 percent rate in 1941.

August 16 Discount rate cut from 11 percent to 10-1/2 percent. Most major banks lower their prime lending rates to 14-1/2 percent.

August 18 Dow Jones Industrial Average rose 38.81 points--an all-time record.

August 19 The stock market trading soared to a record 132,690,000 shares.

August 27 Discount rate lowered to 10 percent. Prime rate lowered to 13.5 percent.

November 23 Prime rate lowered from 12 percent to 11-1/2 percent.

December 13 Discount rate cut to 8-1/2 percent.

December 14 Introduction of money market deposit accounts by banks and S&Ls.

## 1983

January 5 Super NOW accounts introduced.

January 11 Prime rate lowered to 11 percent.

January 31 Independent truckers strike begins.

February 10 Independent truckers strike end.

February 15 Toyota/GM agreement to build a small car in late 1984.

February 25 Prime rate lowered to 10-1/2 percent.

March 14 OPEC sets \$29 per barrel benchmark price and production quota of 17.5 million barrels.

May 2 A 6.5 magnitude earthquake strikes the town of Coalinga.

An earthquake measuring 6.5 on the Richter scale strikes Coalinga, California.

June 8 The maximum rate on government-backed mortgages was raised from 11-1/2 percent to 12 percent.

June 18 Paul Volcker reappointed as Federal Reserve Board Chairman.

# CHRONOLOGY--Continued

## 1983--Continued

June 24 The Federal Budget deficit totalled a record \$29.29 billion in May.

July 7 The maximum rate on government-backed mortgages was raised from 12 percent to 12-1/2 percent.

July 13 Chrysler Corporation announced it will repay the remaining \$800 million in federally guaranteed loans by September, seven years before they are due.

July 25 The Washington Public Power Supply System defaulted on \$2.25 billion in bonds, creating the largest municipal default in U.S. history.

August 1 California's \$1.2 billion offering of revenue-anticipation notes, the State's largest note issue, drew strong investor interest. Notes totalling \$700 million, maturing next April and June, were oversubscribed.

August 2 The maximum rate on government backed mortgages rose from 12-1/2 percent to 13-1/2 percent.

August 7-  
August 28 The Communications Workers of America and two other unions strike AT&T.

August 8 Prime rate raised from 10-1/2 percent to 11 percent by most major banks.

## 1983--Continued

August 23 The maximum rate on government backed mortgages fell from 13-1/2 percent to 13 percent.

September 1 Soviet Union shoots down Korean Airlines Flight 007, New York to Seoul, near the Soviet Island of Salhalin, just north of Japan.

November 1 Maximum rate on VA & FHA mortgages lowered from 13 percent to 12.5 percent.

November 3-  
December 21 Strike against Greyhound Lines Inc.

December 1 FHA mortgage interest rates begin to float. VA rates are still pegged.

## 1984

January 3 Breakup of AT&T becomes effective.

February 2 Contemporaneous reserve accounting is required by Fed for all but the very small deposit-taking institutions.

March 19 Prime rate raised from 11 percent to 11-1/2 percent.

March 20 Maximum rate on VA loans raised from 12-1/2 to 13 percent.

April 4 Prime rate raised from 11-1/2 percent to 12 percent.

April 9 Discount rate raised from 8-1/2 percent to 9 percent; the first change in 3 years.

May 5 Prime rate raised from 12 percent to 12-1/2 percent.

## CHRONOLOGY--Continued

### 1984--Continued

|                              |                                                           |
|------------------------------|-----------------------------------------------------------|
| June 26                      | Prime rate raised from 12-1/2 percent to 13 percent.      |
| September 3 -<br>December 7  | Hotel and restaurant strike - San Francisco.              |
| September 15 -<br>October 14 | UAW-General Motors strike.                                |
| September 28                 | Prime rate reduced from 13 percent to 12-3/4 percent.     |
| October 16                   | Prime rate reduced from 12-3/4 percent to 12-1/2 percent. |
| October 28                   | Prime rate reduced from 12-1/2 percent to 12 percent.     |
| November 7                   | Prime rate reduced from 12 percent to 11-3/4 percent.     |
| November 21                  | Discount rate reduced from 9 percent to 8-1/2 percent.    |
| November 28                  | Prime rate reduced from 11-3/4 percent to 11-1/4 percent. |
| December 17                  | Prime rate reduced from 11-1/4 percent to 10-3/4 percent. |
| December 24                  | Discount rate reduced from 8-1/2 percent to 8 percent.    |

### 1985

|           |                                                                                                          |
|-----------|----------------------------------------------------------------------------------------------------------|
| January 1 | Federal price controls removed from approximately half of the natural gas produced in the United States. |
|-----------|----------------------------------------------------------------------------------------------------------|

### 1985 Continued

|                        |                                                                                                      |
|------------------------|------------------------------------------------------------------------------------------------------|
| January 15             | Prime rate reduced from 10-3/4 percent to 10-1/2 percent.                                            |
| March 9                | Home State Savings Bank Cincinnati, Ohio closed.                                                     |
| March 15               | Seventy Ohio thrift institutions closed to prevent run on deposits.                                  |
| March 25               | Maximum rate on VA loans raised from 12-1/2 percent to 13 percent.                                   |
| May 2                  | Auto manufacturer's initiate low interest loan programs.                                             |
| May 17-<br>June 14     | United Airlines--Air Pilots Association strike.                                                      |
| May 17                 | Prime rate reduced from 10-1/2 percent to 10 percent.                                                |
| May 20                 | Dow Jones Industrials close above 1,300 for the first time.                                          |
| May 29                 | Presidents' tax reform plan unveiled.                                                                |
| June 18                | Prime rate reduced to 9 1/2 percent from 10 1/2 percent.                                             |
| July 16                | Conventional mortgage rates fell to 12.03 percent average--the lowest since October 1979.            |
| July 22-<br>October 16 | 8,200 steelworkers on strike at Wheeling Pittsburgh--the industry's first major walkout in 26 years. |
| August 15              | GM announces 7.7 percent financing rate program to run through October 2nd.                          |

## CHRONOLOGY--Continued

| <u>1985--Continued</u> |                                                                                                                                                                                                        | <u>1986</u> |                                                                                                                                             |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| August 20              | Ford and Chrysler announce incentive plans including low interest loans and rebates on 1985 autos.                                                                                                     | January 1   | Ceiling on Super NOW accounts was removed.                                                                                                  |
| September 4            | The Farm Credit System seeks a Federal bailout of its \$74 billion loan portfolio.                                                                                                                     | January 17  | United Steel workers leaders agreed to allow rank-and-file members to vote on labor contracts for the first time in the union's history.    |
| September 15           | A State Department of Housing and Community Development regulation requiring equal access on accessible levels of apartment houses with five or more units, for handicapped persons, went into effect. | January 28  | Space shuttle Challenger explosion destroys the spacecraft. Seven crew members died.                                                        |
| September 16           | Saudi Arabia announces plans to boost oil production and cut prices.                                                                                                                                   | February 26 | Corazon Aquino takes over Phillipines as the new president.                                                                                 |
| September 22           | G-5 agreement to push the dollar lower.                                                                                                                                                                | March 3     | Dow Jones Industrials close above 1700 for the first time.                                                                                  |
| November 7             | Dow Jones Industrials close above 1400 for the first time.                                                                                                                                             | March 4     | Yields on 10-year Treasury Notes fall below 8 percent for the first time in eight years.                                                    |
| December 10            | World oil prices fall by more than a dollar after OPEC decides to abandon price supports.                                                                                                              |             | Oil prices fall to \$12 per barrel.                                                                                                         |
| December 12            | President Reagan signs the budget deficit bill into law, raising the debt ceiling to \$2 trillion and setting deficit targets for each year through 1991.                                              | March 7     | The discount rate reduced from 7-1/2 percent to 7 percent, following similar cuts by Germany & Japan.                                       |
| December 23            | President Reagan signs the farm subsidy bill into law, creating a 5-year plan to bail out the Farm Credit System.                                                                                      | March 21    | Dow Jones Industrials close above 1800 for the first time.                                                                                  |
|                        |                                                                                                                                                                                                        | March 25    | Conservative Chirac appointed as Prime Minister of France.                                                                                  |
|                        |                                                                                                                                                                                                        | April 1     | U.S. warplanes attacked two Libyan ships and a shoreline missile site after Libyan missiles were fired at U.S. planes in the Gulf of Sidra. |
|                        |                                                                                                                                                                                                        |             | Interest ceilings on passbook saving accounts ended.                                                                                        |

# CHRONOLOGY--Continued

## 1986--Continued

April 1 Oil prices fall to under \$11 per barrel.

April 14 U.S. air strike against Libya.

April 21 U.S. Dollar reaches a post-WWII low against the Yen at 168.60.  
Discount rate cut from 7 percent to 6-1/2 percent.

April 23 Paul Volcker warns of public and private debt buildup as a threat to the economy.

April 25 Soviet nuclear plant at Chernobyl destroyed by fire.

May 12 U.S. dollar falls to 159.95 Yen.

May 22 U.S. proposes 35 percent tariff on Canadian cedar shakes and shingles for roofing, leading to a trade dispute between the U.S. and Canada.

June 1-June 26 CWA strike at AT&T.

July 7 The U.S. Supreme Court ruled that the Gramm-Rudman-Hollings mechanism for across the-board, automatic spending cuts was unconstitutional.

July 7 The Dow Jones Industrial average was down a record 61.87 points.

## 1986--Continued

July 10 The Fed lowered the discount rate from 6-1/2% to 6%.

August 1 United steelworkers strike for the first time since 1959. 44,000 workers were involved.

August 20 The discount rate was reduced from 6 percent to 5-1/2 percent.

August 27 The prime rate was cut to 7-1/2 percent from 8 percent.

August 28 General Motors Corp. introduces a new incentive program to lure consumers by an unprecedented auto loan rate of 2.9 percent.

September 4 Stock market prices soared as the Dow Jones Industrial average jumped 38.38 points to a closing record of 1919.17.

September 5 California bank and corporation tax law was amended to provide for a "Waters-Edge" election. This is an alternate treatment of taxable income.

September 11 The Dow Jones Industrial average plummeted a record 86.61 points, or 4.61 percent to 1792.89.

October 22 President Reagan signs the tax reform bill into law, the first full scale remodification since 1954.

October 27-December 13 Union employees from Kaiser Foundation Hospital, Kaiser Permanente Medical Group, Inc. & Kaiser Foundation Health Plan strike.

## CHRONOLOGY--Continued

### 1986--Continued

November 1      The savings bond rate dropped from 7-1/2 percent to 6 percent, affecting new issues only.

### 1987

January 1      California Legislature approved a measure, effective Jan. 1, 1987, giving school districts the local option to access \$1.50 per square foot on new residential construction and \$.25 per square foot on new nonresidential construction.

Fannie Mae raises mortgage ceiling to \$153,100 from \$133,250.

OPEC's 7 percent production cut went into effect. U.S. oil prices hit \$18 per barrel.

January 8      The Dow Jones Industrial average topped the 2000 mark.

January 19      The Dow Jones Industrial average topped the 2100 mark.

The dollar fell to a record low against the yen--150.49 yen to the dollar.

January 22      The Dow Jones Industrial average posted a record 51.60 percent gain to a new high of 2145.67.

February 5      Brazil suspends interest payments on commercial debt.

February 5      The Dow Jones Industrial average topped the 2200 mark.

March 5      Ecuador is rocked by severe earthquake.

March 16      Fannie Mae announces it will not enter home equity loan market.

March 20      The Dow Jones Industrial average topped the 2300 mark.

March 24      U.S. dollar falls to post WW II low--148.5 yen to the dollar.

April 1      The prime rate increased from 7.5 to 7.75 percent.

April 6      The Dow Jones Industrial average topped the 2400 mark.



# REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-1982

| <u>Initial<br/>Trough</u> |      | <u>Peak</u> |      | <u>Terminal<br/>Trough</u> |      | <u>Expansion<br/>(months)</u> | <u>Contraction<br/>(months)</u> | <u>Total<br/>(months)</u> |
|---------------------------|------|-------------|------|----------------------------|------|-------------------------------|---------------------------------|---------------------------|
| Dec.                      | 1854 | June        | 1857 | Dec.                       | 1858 | 30                            | 18                              | 48                        |
| Dec.                      | 1858 | Oct.        | 1860 | June                       | 1861 | 22                            | 8                               | 30                        |
| June                      | 1861 | April       | 1865 | Dec.                       | 1867 | 46                            | 32                              | 78                        |
| Dec.                      | 1867 | June        | 1869 | Dec.                       | 1870 | 18                            | 18                              | 36                        |
| Dec.                      | 1870 | Oct.        | 1873 | March                      | 1879 | 34                            | 65                              | 99                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1879 | March       | 1882 | May                        | 1885 | 36                            | 38                              | 74                        |
| May                       | 1885 | March       | 1887 | April                      | 1888 | 22                            | 13                              | 35                        |
| April                     | 1888 | July        | 1890 | May                        | 1891 | 27                            | 10                              | 37                        |
| May                       | 1891 | Jan.        | 1893 | June                       | 1894 | 20                            | 17                              | 37                        |
| June                      | 1894 | Dec.        | 1895 | June                       | 1897 | 18                            | 18                              | 36                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| June                      | 1897 | June        | 1899 | Dec.                       | 1900 | 24                            | 18                              | 42                        |
| Dec.                      | 1900 | Sept.       | 1902 | Aug.                       | 1904 | 21                            | 23                              | 44                        |
| Aug.                      | 1904 | May         | 1907 | June                       | 1908 | 33                            | 13                              | 46                        |
| June                      | 1908 | Jan.        | 1910 | Jan.                       | 1912 | 19                            | 24                              | 43                        |
| Jan.                      | 1912 | Jan.        | 1913 | Dec.                       | 1914 | 12                            | 23                              | 35                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| Dec                       | 1914 | Aug.        | 1918 | March                      | 1919 | 44                            | 7                               | 51                        |
| March                     | 1919 | Jan.        | 1920 | July                       | 1921 | 10                            | 18                              | 28                        |
| July                      | 1921 | May         | 1923 | July                       | 1924 | 22                            | 14                              | 36                        |
| July                      | 1924 | Oct.        | 1926 | Nov.                       | 1927 | 27                            | 13                              | 40                        |
| Nov.                      | 1927 | Aug.        | 1929 | March                      | 1933 | 21                            | 43                              | 64                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1933 | May         | 1937 | June                       | 1938 | 50                            | 13                              | 63                        |
| June                      | 1938 | Feb.        | 1945 | Oct.                       | 1945 | 80                            | 8                               | 88                        |
| Oct.                      | 1945 | Nov.        | 1948 | Oct.                       | 1949 | 37                            | 11                              | 48                        |
| Oct.                      | 1949 | July        | 1953 | May                        | 1954 | 45                            | 10                              | 55                        |
| May                       | 1954 | Aug.        | 1957 | April                      | 1958 | 39                            | 8                               | 47                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| April                     | 1958 | April       | 1960 | Feb.                       | 1961 | 24                            | 10                              | 34                        |
| Feb.                      | 1961 | Dec.        | 1969 | Nov.                       | 1970 | 106                           | 11                              | 117                       |
| Nov.                      | 1970 | Nov.        | 1973 | March                      | 1975 | 36                            | 16                              | 52                        |
| March                     | 1975 | Jan.        | 1980 | July                       | 1980 | 58                            | 6                               | 64                        |
| July                      | 1980 | July        | 1981 | Nov.                       | 1982 | 12                            | 16                              | 28                        |

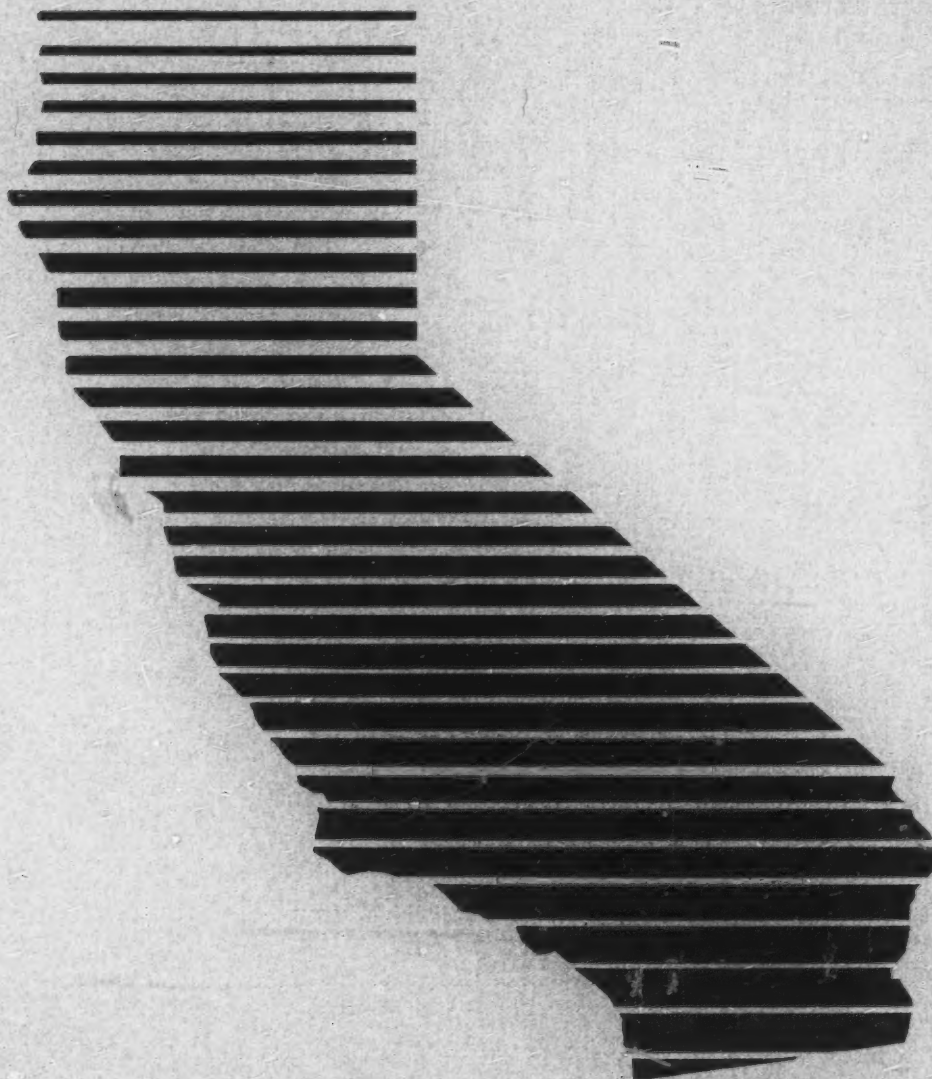
## SOURCES OF STATISTICAL SERIES

|                                                                                    |                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employment Development Department<br>Employment Data and Research                  | Civilian Employment<br>Unemployment<br>Unemployment rate<br>Nonagricultural employment<br>Manufacturing employment<br>Hours and earnings<br>Nonagricultural placements<br>Initial claims for unemployment<br>insurance<br>Insured unemployment<br>Index for production worker hours |
| Department of Industrial Relations<br>Division of Labor Statistics<br>and Research | California consumer price index                                                                                                                                                                                                                                                     |
| Department of Finance                                                              | Personal income<br>Wages and salaries<br>Index of leading indicators                                                                                                                                                                                                                |
| Department of Motor Vehicles                                                       | New auto registrations                                                                                                                                                                                                                                                              |
| State Board of Equalization                                                        | Taxable sales                                                                                                                                                                                                                                                                       |
| Security Pacific National Bank                                                     | Housing units authorized<br>Valuation of nonresidential<br>construction                                                                                                                                                                                                             |
| U.S. Department of Commerce                                                        | Retail sales                                                                                                                                                                                                                                                                        |
| U.S. Bureau of Labor Statistics                                                    | Consumer price indices                                                                                                                                                                                                                                                              |
| U.S. Department of Defense                                                         | Prime defense contracts                                                                                                                                                                                                                                                             |
| U.S. Department of Energy                                                          | Electricity production                                                                                                                                                                                                                                                              |
| California Redwood Association                                                     | Lumber production                                                                                                                                                                                                                                                                   |
| Conservation Committee of California<br>Oil Producers                              | Petroleum production                                                                                                                                                                                                                                                                |
| American Iron and Steel Institute                                                  | Steel production                                                                                                                                                                                                                                                                    |
| U.S. Bureau of Mines                                                               | Cement production                                                                                                                                                                                                                                                                   |
| California Secretary of State                                                      | New business incorporations                                                                                                                                                                                                                                                         |
| Federal Reserve Bank of<br>San Francisco                                           | Demand deposits<br>Commercial and industrial loans                                                                                                                                                                                                                                  |
| Coldwell Banker                                                                    | Vacancy Rates                                                                                                                                                                                                                                                                       |

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# **CALIFORNIA ECONOMIC INDICATORS**

**May 1987**



**DEPARTMENT OF FINANCE**

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## INTRODUCTION

California Economic Indicators is a bimonthly summary of economic trends and data relating to the State of California. Generally patterned after the U.S. Bureau of Economic Analysis publication Business Conditions Digest, the report contains regular features.

Developments in California over the most recent months are reviewed in a brief text, and then summarized in current data tables which show changes over the previous year. Charts containing monthly and quarterly series from 1978 are included to facilitate the review of current developments, and to appraise the significance of the developments on the State economy. Much of the data in the report has been seasonally adjusted by the source agency or the Department of Finance.

Reference dates for U.S. business cycles, as determined by the National Bureau of Economic Research, are also shown. Finally, sources are cited on the inside back cover to assist readers in obtaining any additional information on the statistical series published.

The Department of Finance welcomes suggestions on additions or changes which would make the Indicators a more useful publication. Correspondence should be addressed to State of California, Department of Finance, Financial Research Unit, 1025 P Street, Sacramento, CA 95814.

Subscriptions are \$8.00 per year, and begin with the January issue. The subscription price will be prorated throughout the year based upon the beginning subscription date, as shown below:

| <u>Beginning Subscription Date</u> | <u>Prorated Amount Due</u> |
|------------------------------------|----------------------------|
| January                            | \$8.00                     |
| March                              | 6.75                       |
| May                                | 5.40                       |
| July                               | 4.05                       |
| September                          | 2.70                       |
| November                           | 1.35                       |

Mail subscription requests and prepayment (no billing available) to the California Department of Finance, P.O. Box 151, Sacramento, CA 95801. Make checks payable to the California Department of Finance.

## REVIEW OF ECONOMIC DEVELOPMENTS

The California economy continued to expand in March and April, following healthy reports for the first two months. The State appears to have shaken off the sluggishness which prevailed at the end of 1986.

Although trends vary widely from sector to sector, employment overall has made good gains. In April, civilian employment increased 4.6 percent, adding 573,000 new jobs since April 1986. The unemployment rate dropped to 5.8 percent, the lowest in 17 years. This performance is especially noteworthy given the large increase in the labor force in April. Nationally, the unemployment rate registered 6.3 percent for the month.

Data based on nonagricultural wage and salary employment indicate a 2.7 percent year-over-year gain for the State's nonfarm workers. The large monthly increase in the construction sector resulted in a year-over-year rise of 10.1 percent. The trade, services and finance sectors all grew by more than 3 percent. These three sectors, with construction, continue to provide the underlying strength for the economy. Both manufacturing and Federal government employment fell from year-earlier levels, but improved since March.

Release of the quarterly benchmark of the interim series on employment has been delayed. As a result, March and April figures were calculated based on the change in the official employment series data. Revisions of the interim series for the fourth quarter 1986 and first quarter 1987, as well as updated personal income estimates, should be available shortly. Requests for this information may be directed to the Department of Finance, Economic Research Unit.

Recent reports indicate that retail sales are moderate, with a number of the larger retail chains posting higher than anticipated gains. Although the growth in

consumer spending has slowed, activity is still favorable. Car sales, the largest component of retail sales, are also still strong. New auto registrations in California were up 10.6 percent from March 1986 to March 1987. The first quarter was 5 percent above a year earlier. While auto purchases have held up in the State, new car sales for the Nation have been lagging slightly. To maintain sales at desired levels, it has been necessary for auto manufacturers to provide incentives such as cash-rebate programs and low-interest financing.

Residential construction activity slowed in February, with private residential housing authorizations down 18.9 percent from the preceding month, and off 3.7 percent from a year ago when activity was booming. Investment in multiple residential units declined 16.3 percent over the year. The vacancy rate in this category is apparently still acting as a deterrent to new construction. Single unit authorizations were at a 124,600 seasonally adjusted annual rate, reflecting a 10.6 year-over-year gain. However, because of the unusually good weather during February, the seasonal adjustment factor provided an upward bias, so some of the gain should be discounted.

Nonresidential construction declined more than 21 percent between February 1986 and February 1987. Commercial building suffered the most, still plagued by high vacancy rates. On the bright side, demand has begun to outpace construction in some regions. The downtown vacancy rate dropped 2.8 percentage points in San Diego and 2.1 percentage points in Sacramento in the first quarter. The corresponding vacancy rates of 14.2 and 9.2 percent are both lows in recent years for those areas.

Demand was also up for industrial buildings, especially for warehouse/ distribution facilities. Southern California alone accounted for over 40 percent of new industrial construction activity nationwide.



The region is growing in prominence as an international trade center, especially with Pacific Rim partners. Industrial vacancy rates also declined in the first quarter--for both the Northern/ Central and Southern California regions.

Alterations and additions accounted for 38 percent of total nonresidential construction valuation for the month. The popularity of this type of construction continues to grow, outperforming the February 1986 level of activity by 35.4 percent.

As reported in the March issue of California Economic Indicators, the California Consumer Price Index was revised, due to the change in reporting frequency of the San Francisco and San Diego indexes. The San Diego CPI was removed from the calculation of the California CPI, resulting in a technical problem whereby index values based on the new formula were not comparable to historical values. This problem was recently resolved, and the January, February and March 1987 index values for the California CPI have been adjusted, and linked to historical data prior to January 1987. Comparisons between historical data and current data are now meaningful.

Comparison of Original and  
Adjusted California CPI Series, 1987

|                           | <u>Original<br/>Series</u> | <u>Adjusted<br/>Series</u> |
|---------------------------|----------------------------|----------------------------|
| All Urban Consumers Index |                            |                            |
| January                   | 338.4                      | 343.3                      |
| February                  | 341.9                      | 346.9                      |
| March                     | 343.9                      | 349.0                      |
| Wage and Earner Index     |                            |                            |
| January                   | 330.8                      | 332.2                      |
| February                  | 334.4                      | 335.8                      |
| March                     | 336.3                      | 337.7                      |

Inflation in the State was up 4.7 percent from April 1986 to April 1987, according to the California Consumer Price Index. Gasoline prices rose sharply during the month, up 6.5 percent from a year ago. The overall transportation index rose more moderately in the two regions surveyed in California. Transportation costs increased 2 percent in San Francisco and 3.6 percent in Los Angeles. Medical care costs also helped push the index higher--still advancing at rates in excess of 7 percent.

Increases in the apparel and upkeep component were greater than in recent history. Prices went up 4.5 and 4.7 percent in San Francisco and Los Angeles, respectively. The industry is showing its sensitivity to foreign competition. As the dollar falls, and the price of imports increases, domestic manufacturers have been able to raise prices. Also, the spring and summer fashion lines were introduced, carrying higher prices.

The rise in rents and homeowners' costs continued in April, but at lower rates than a year earlier. In the Los Angeles region, homeowners' costs increased 7.6 percent on a year-over-year basis. They were up 6.1 percent in the San Francisco region. Home price data from the California Association of Realtors show a similar trend for existing home prices. The median sales price of existing single-family detached homes in California in March was \$131,799. During the first two months of the year, prices had eased from softer demand after the year-end surge. Prices jumped back up in March by 5.8 percent. A look at the longer term trend since May of 1985 shows that the rate of increase in home prices has been slowing since June 1986. For the State overall, this trend should continue, especially if interest rates edge up further.

## THE OUTLOOK IN BRIEF

### The Nation

The economy has shown no signs of breaking out of the moderate growth pace expected since the last forecast of the Department of Finance was prepared. As a result, the forecast for the Governor's Budget is still on track, even though individual components have been modified to reflect later data and developments.

The preliminary estimate of gross national product for the first quarter of 1987 showed a 4.3 percent growth rate, reflecting a \$39.1 billion increase in economic activity. The surge did not arise from improved consumer spending or fixed investment, however, but from a buildup in inventories. Consumer spending has shown the expected softness early in 1987, an easing attributable to the high level of spending for big ticket items in the second half of 1986. The outlook now revolves around two critical areas: inventories and the foreign trade balance.

Inventories saw a \$59 billion swing, from a negative \$28 billion in the fourth quarter last year to a positive \$31 billion. Inventories therefore accounted for all of the gain in real GNP, and then some. There are indications that part of the inventory accumulation was probably involuntary, mirroring soft demand. To the extent this occurred, the 4.3 percent gain reported for the first quarter is less significant than it initially appears.

The second positive element in the first quarter was the improvement in the net export figure, which went from a minus \$148 billion in the fourth quarter to a negative \$134 billion in the first.

In essence, inventory change and the net export balance offset weakness in consumer spending, investment, and the government sector. It is likely that such cross-currents will continue for some months.

The recent rise in interest rates, for instance, has come about as a result of Federal Reserve actions to stem a resurgence in inflation, to strengthen the U.S. dollar, and to help the Treasury in its financing operations by encouraging the inflow of funds from overseas. The near-term domestic impact is expected to be a dampening of some investment activity and curtailment of spending on big ticket items.

Concerns over potential inflation cannot be ignored, even though price rises are still moderate. During 1986, declining oil prices masked the underlying rate of inflation to a large extent. Now that oil prices have firmed and apparently stabilized, the underlying inflation rate has once again become dominant.

Prices of imports are contributing to the problem. The initial decline in the dollar had little impact on prices as margins were adjusted to absorb exchange rate movements. More recent declines in the dollar have necessitated price changes which have been substantial in some instances.

The trade deficit is expected to remain serious throughout the year. Forecasts of sustained improvement assume that imports will be curtailed in response to rising prices, while exports gain in foreign markets due to a price advantage.

Inventory investment is not expected to provide the stimulus seen in the first quarter. Cutbacks are now underway in the auto industry, for instance, which should bring stocks down in the current quarter. This will effectively hold the rise in real GNP in check.

Consumer spending in other areas has apparently been mixed. Sales gains reported by major retailers run from

strong double-digit levels to rather anemic increases. Explanations have ranged from unusual weather conditions to over-spending toward the end of 1986. The major unknown is the impact of the new federal tax law on consumer decisions.

With the phasing out of interest deductions on federal tax returns, there appears to have been a pronounced shift toward home equity lines of credit. Unfortunately, specific data have not been collected on such credit lines: they are combined with overall mortgage lending. There have been suggestions that equity financing has accelerated sharply, however, with many institutions reporting a strong surge in applications. The extent to which lines of credit are drawn down for major purchases will be a major factor in the level of consumer spending for the coming year.

Housing has continued as one of the stronger sectors, although higher interest rates can be expected to curb demand. While the 1-1/2 percent rise in mortgage rates earlier this year was a deterrent for some home buyers, rates still remain low in comparison with recent history. In fact, the surge in rates may actually stimulate sales to individuals concerned that rates will rise even further in coming months.

Other investment is still sluggish, reflecting the curbing of depreciation allowances, efforts to improve profit margins and an uncertain outlook.

In summary, the forecast can best be characterized as continuation of the very moderate growth seen over the past year.

### **The California Outlook**

The California forecast has been raised moderately to reflect both revised California data and the new national outlook. As before, California is expected to turn in a performance which is comparable to that of the nation in some respects and substantially better in others for both 1987 and 1988.

Employment data fall in the "comparable to" category. Monthly data have suggested that year-over-year gains in the State are about equal to those for the U.S. as a whole.

Perhaps more important, trends are quite different from one sector to another within California. Construction remains strong despite concerns that tax revision would curtail activity. Many of the jobs are undoubtedly attributable to both ongoing commercial projects and homebuilding. A slowdown in multiple housing activity has been fairly well offset by single family construction. Overall, housing authorizations for 1987 are expected to amount to 280,000.

Another strong component is business services, which have been a mainstay in the employment total for some years. They are expected to see a job gain of nearly 9 percent this year.

The only soft areas appear to be durable goods manufacturing and mining. The electronics industry, for instance, is still feeling the effects of competition from imports even though it appears that a moderate improvement may be underway. The hard-hit mining industry also seems to be leveling out, and is expected to stabilize from this point on.

The most notable aspect of the California forecast is the comparative strength in personal income. To a large extent this is due to an apparent higher average wage gain in the State than in the nation. Income is forecast up 6.8 percent in 1987 for California, with a further 7.4 percent gain in 1988. These increases are significantly above the 4.8 and 6.0 percent gains expected for the U.S. for this year and next. The 1987 gain is moderately higher than that forecast for the Budget, while the 1988 rise is only marginally better.

While a forecast of continued moderate growth appears reasonable given recent developments, there are still a number of aspects which could lead to a different forecast for 1988, if not the latter months of 1987. Economic news reports are mixed, with positive developments followed a few days later by less favorable reports. Interpretation of these in terms of an economic forecast is difficult, especially considering that data can be revised substantially in subsequent months.

Second, the current business cycle expansion has now lasted for 54 months. This is unusually long for a noninflationary, peace-time period. Nevertheless, there are no signs of stress which would suggest a downturn is imminent. In fact, the slow pace of activity on balance over the past year and a half may well have relieved any incipient pressures, thereby insuring moderate growth for the foreseeable future.

The following two pages of tables give details of the latest forecast of the Department of Finance for the California economy.

# SELECTED ECONOMIC DATA 1987 AND 1988

| LABOR FORCE AND EMPLOYMENT<br>(In thousands) | 1986   | 1987   | Percent Change |       |       |      |
|----------------------------------------------|--------|--------|----------------|-------|-------|------|
|                                              |        |        | 1988           | 1986  | 1987  | 1988 |
| Civilian Labor Force                         | 13,365 | 13,752 | 14,194         | 2.9   | 2.9   | 3.2  |
| Employment                                   | 12,737 | 12,885 | 13,278         | 3.5   | 3.3   | 3.1  |
| Unemployment                                 | 892    | 867    | 916            | -4.5  | -2.8  | 5.6  |
| Unemployment Rate                            | 6.7    | 6.3    | 6.5            | --    | --    | --   |
| Total Nonagricultural Employment             | 11,250 | 11,592 | 11,928         | 2.5   | 3.0   | 2.9  |
| Mining                                       | 42     | 37     | 37             | -16.6 | -11.4 | 0.1  |
| Construction                                 | 527    | 566    | 572            | 6.2   | 7.4   | 1.1  |
| Manufacturing                                | 2,053  | 2,062  | 2,086          | -1.1  | 0.5   | 1.2  |
| Nondurable Goods                             | 644    | 657    | 671            | 1.3   | 2.0   | 2.1  |
| Durable Goods                                | 1,408  | 1,405  | 1,415          | -2.2  | -0.2  | 0.7  |
| Aerospace                                    | 752    | 753    | 757            | -0.3  | 0.1   | 0.6  |
| Other Durables                               | 657    | 652    | 658            | -4.4  | -0.7  | 0.9  |
| Transportation-Utilities                     | 576    | 594    | 611            | 1.3   | 3.1   | 2.9  |
| Trade                                        | 2,708  | 2,806  | 2,909          | 3.1   | 3.6   | 3.7  |
| Wholesale                                    | 693    | 714    | 737            | 3.0   | 3.0   | 3.3  |
| Retail                                       | 2,014  | 2,092  | 2,172          | 3.2   | 3.9   | 3.8  |
| Finance, Insurance, Real Estate              | 765    | 793    | 832            | 5.6   | 3.6   | 5.0  |
| Services                                     | 2,747  | 2,864  | 2,975          | 3.9   | 4.2   | 3.9  |
| Auto Services                                | 162    | 166    | 172            | -0.3  | 2.4   | 3.4  |
| Business Services                            | 691    | 753    | 795            | 6.2   | 8.8   | 5.6  |
| Health Services                              | 663    | 685    | 711            | 1.9   | 3.2   | 3.9  |
| All Other Services                           | 1,231  | 1,260  | 1,297          | 4.3   | 2.4   | 2.9  |
| Government                                   | 1,833  | 1,871  | 1,906          | 2.3   | 2.0   | 1.9  |
| Federal                                      | 344    | 345    | 345            | 0.2   | 0.5   | -0.1 |
| State and Local                              | 1,490  | 1,525  | 1,561          | 2.7   | 2.4   | 2.3  |



# SELECTED ECONOMIC DATA 1987 AND 1988

|                                   | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>Percent Change</u> |             |             |
|-----------------------------------|-------------|-------------|-------------|-----------------------|-------------|-------------|
|                                   |             |             |             | <u>1986</u>           | <u>1987</u> | <u>1988</u> |
| PERSONAL INCOME<br>(In millions)  |             |             |             |                       |             |             |
| Total Personal Income             | \$452,512   | \$483,297   | \$519,061   | 6.8                   | 6.8         | 7.4         |
| Wages and Salaries                | 269,307     | 290,085     | 313,071     | 7.4                   | 7.7         | 7.9         |
| Other Labor Income                | 27,619      | 29,941      | 32,373      | 8.2                   | 8.4         | 8.1         |
| Proprietors' Income               | 39,176      | 43,132      | 46,858      | 7.4                   | 10.1        | 8.6         |
| Farm                              | 3,429       | 3,263       | 3,297       | -7.7                  | -4.8        | 1.0         |
| Nonfarm                           | 35,747      | 39,869      | 43,561      | 9.2                   | 11.5        | 9.3         |
| Property Income                   | 75,794      | 78,083      | 83,497      | 5.1                   | 3.0         | 6.9         |
| Interest                          | 59,681      | 60,497      | 64,762      | --                    | 1.4         | 7.1         |
| Dividends                         | 10,194      | 11,057      | 12,146      | 7.8                   | 8.5         | 9.8         |
| Rent                              | 5,919       | 6,528       | 6,589       | 100.2                 | 10.3        | 0.9         |
| Transfer Payments                 | 60,363      | 63,624      | 67,354      | 6.7                   | 5.4         | 5.9         |
| Less Contributions                | 19,838      | 21,661      | 24,184      | 10.6                  | 9.2         | 11.6        |
| Residence Adjustment              | 93          | 93          | 93          | --                    | --          | --          |
| OTHER VARIABLES                   |             |             |             |                       |             |             |
| Housing Units                     | 306         | 280         | 270         | 15.3                  | -8.6        | -3.6        |
| Singles                           | 145         | 150         | 140         | 31.3                  | 3.7         | -6.7        |
| Multiples                         | 162         | 130         | 130         | 4.0                   | -19.6       | --          |
| New Car Sales<br>(registrations)  | 1,424       | 1,278       | 1,363       | 12.3                  | -10.3       | 6.7         |
| Total Taxable Sales               | \$217,466   | \$229,100   | \$243,600   | 4.3                   | 5.3         | 6.3         |
| Corporate Profits<br>Before Taxes | 40,100      | 47,000      | 52,000      | 19.7                  | 17.2        | 10.6        |
| Consumer Price Index              | 339.1       | 353.4       | 368.9       | 3.2                   | 4.2         | 4.4         |



EMPLOYMENT  
(Seasonally Adjusted)

|                                                                      | 1987     |          |          |          | 1986     | Percent<br>Change<br>Apr 1986-<br>Apr 1987 |
|----------------------------------------------------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                                                                      | Apr      | Mar      | Feb      | Jan      | Apr      |                                            |
| Civilian Employment (000)                                            | 12,959   | 12,833   | 12,779   | 12,568   | 12,386   | 4.6                                        |
| Unemployment (000)                                                   | 802      | 822      | 847      | 835      | 898      | -10.7                                      |
| Unemployment rate                                                    | 5.8      | 6.0      | 6.2      | 6.2      | 6.8      | --                                         |
| Nonagricultural wage<br>and salary<br>employment <sup>a/</sup> (000) | 11,524.6 | 11,489.8 | 11,471.1 | 11,435.9 | 11,224.3 | 2.7                                        |
| Mining                                                               | 37.0     | 36.7     | 37.2     | 37.7     | 44.0     | -15.9                                      |
| Construction                                                         | 568.3    | 563.6    | 566.1    | 560.5    | 516.0    | 10.1                                       |
| Manufacturing                                                        | 2,052.4  | 2,050.9  | 2,053.9  | 2,057.0  | 2,065.9  | -0.7                                       |
| Aerospace <sup>b/</sup>                                              | n.a.     | 749.6    | 749.3    | 751.4    | 752.6    | --                                         |
| Transportation and<br>Public utilities                               | 589.3    | 590.3    | 589.5    | 587.6    | 573.5    | 2.8                                        |
| Trade                                                                | 2,794.5  | 2,781.2  | 2,769.7  | 2,753.2  | 2,699.6  | 3.5                                        |
| Finance, insurance<br>and real estate                                | 784.3    | 781.7    | 778.9    | 777.9    | 761.0    | 3.1                                        |
| Services                                                             | 2,835.6  | 2,824.8  | 2,816.5  | 2,803.9  | 2,738.6  | 3.5                                        |
| Government                                                           | 1,863.2  | 1,860.6  | 1,859.3  | 1,858.1  | 1,825.7  | 2.1                                        |
| Federal                                                              | 345.8    | 345.3    | 346.0    | 346.4    | 348.1    | -0.7                                       |
| State & local                                                        | 1,517.4  | 1,515.3  | 1,513.3  | 1,511.7  | 1,477.6  | 2.7                                        |

<sup>a/</sup> Interim series of wage and salary workers. This unofficial series is adjusted for the latest tabulations of unemployment insurance coverage and approximates what the official data will be when estimates are updated at year end.

<sup>b/</sup> The Interim Series does not give a breakdown for aerospace employment. These values are from the EDD official employment series, and are not seasonally adjusted.

HOURS AND EARNINGS IN MANUFACTURING

|                         | 1987     |          |          |          | 1986     | Percent<br>Change<br>Mar 1986-<br>Mar 1987 |
|-------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                         | Mar      | Feb      | Jan      | Dec      | Mar      |                                            |
| Average weekly hours    | 40.6     | 40.3     | 40.2     | 40.1     | 40.5     | 0.2                                        |
| Average weekly earnings | \$432.68 | \$429.07 | \$425.20 | \$434.84 | \$414.10 | 4.5                                        |
| Average hourly earnings | \$10.71  | \$10.70  | \$10.63  | \$10.58  | \$10.25  | 4.5                                        |

TRADE  
(Seasonally Adjusted)

|                                    | 1987       |            |            | 1986       |            | Percent<br>Change<br>Mar 1986-<br>Mar 1987 |
|------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                    | <u>Mar</u> | <u>Feb</u> | <u>Jan</u> | <u>Dec</u> | <u>Mar</u> |                                            |
| Retail sales (millions)            | n.a.       | n.a.       | n.a.       | 15,604     | 14,228     | --                                         |
| New auto registrations<br>(number) | 112,665    | 111,311    | 135,010    | 122,903    | 101,871    | 10.6                                       |

CONSUMER PRICE INDEX  
(1967 = 100)

|                                           | 1987       |            |            |            | 1986       | Percent<br>Change<br>Apr 1986-<br>Apr 1987 |
|-------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                           | <u>Apr</u> | <u>Mar</u> | <u>Feb</u> | <u>Jan</u> | <u>Apr</u> |                                            |
| All Urban Series                          |            |            |            |            |            |                                            |
| California Average                        | 351.0      | 349.0      | 346.9      | 343.3      | 335.1      | 4.7                                        |
| San Francisco                             | 353.0      | 349.6      | 348.8      | 345.8      | 339.3      | 4.0                                        |
| Los Angeles                               | 342.8      | 341.4      | 338.8      | 335.1      | 326.8      | 4.9                                        |
| Wage Earner and Clerical<br>Worker Series |            |            |            |            |            |                                            |
| California Average                        | 339.8      | 337.7      | 335.8      | 332.2      | 325.1      | 4.5                                        |
| San Francisco                             | 346.9      | 343.4      | 342.2      | 339.0      | 333.2      | 4.1                                        |
| Los Angeles                               | 334.8      | 333.4      | 331.2      | 327.4      | 320.2      | 4.6                                        |

PRODUCTION

|                                                              | 1987       |            |            | 1986       |            |
|--------------------------------------------------------------|------------|------------|------------|------------|------------|
|                                                              | <u>Mar</u> | <u>Feb</u> | <u>Jan</u> | <u>Dec</u> | <u>Mar</u> |
| Petroleum (000 barrels daily)                                | n.a.       | n.a.       | 1,063      | 1,079      | 1,163      |
| Portland cement (000 short tons)                             | 824.4      | 672.9      | 697.9      | 813.3      | 687.3      |
| Selected redwood and whitewood<br>mill production (mil. FBM) | 78.0       | 69.3       | 80.2       | 72.2       | 63.82      |

n.a. Not available

# CONSTRUCTION

|                            | 1987       |            |            | 1986       |            | Percent<br>Change<br>Feb 1986-<br>Feb 1987 |
|----------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                            | <u>Feb</u> | <u>Jan</u> | <u>Dec</u> | <u>Nov</u> | <u>Feb</u> |                                            |
| Private Residential        |            |            |            |            |            |                                            |
| Housing Units              |            |            |            |            |            |                                            |
| Authorized (000) <u>a/</u> | 233.9      | 288.4      | 522.1      | 306.6      | 243.0      | -3.7                                       |
| Single Units               | 124.6      | 145.1      | 254.2      | 143.3      | 112.4      | 10.9                                       |
| Multiple Units             | 109.3      | 143.3      | 267.9      | 163.3      | 130.6      | -16.3                                      |
| Residential Building       |            |            |            |            |            |                                            |
| Authorized Valuation       |            |            |            |            |            |                                            |
| (millions) <u>b/</u>       | \$1,602    | \$2,037    | \$3,003    | \$1,763    | \$1,546    | 3.6                                        |
| Nonresidential Building    |            |            |            |            |            |                                            |
| Authorized Valuation       |            |            |            |            |            |                                            |
| (millions) <u>b/</u>       | \$886      | \$1,152    | \$1,517    | \$1,193    | \$1,125    | -21.2                                      |
| Nonresidential Building    |            |            |            |            |            |                                            |
| Authorized Valuation       |            |            |            |            |            |                                            |
| (millions) <u>c/</u>       | \$814      | \$926      | \$1,379    | \$1,051    | \$1,034    | -21.3                                      |
| Commercial                 | \$310      | \$324      | \$596      | \$447      | \$557      | -44.3                                      |
| Industrial                 | \$97       | \$157      | \$283      | \$159      | \$138      | -29.7                                      |
| Other                      | \$98       | \$108      | \$188      | \$170      | \$110      | -10.9                                      |
| Alterations & Additions    | \$310      | \$338      | \$311      | \$276      | \$229      | 35.4                                       |

a/ Seasonally adjusted annual rate.

b/ Seasonally adjusted.

c/ Not adjusted for seasonal variation.

## VACANCY RATES FOR MARCH 1987 (Percent)

|                               | Office       |                 |                 | Industrial |
|-------------------------------|--------------|-----------------|-----------------|------------|
|                               | <u>Total</u> | <u>Downtown</u> | <u>Suburban</u> |            |
| Northern & Central California |              |                 |                 | 8.8        |
| Oakland - East Bay            | 28.1         | 19.2            | 31.0            |            |
| Sacramento                    | 20.8         | 9.2             | 24.5            |            |
| San Francisco                 | 19.3         | 18.1            | 21.0            |            |
| San Jose                      | 27.0         | 18.6            | 28.8            |            |
| Southern California           |              |                 |                 | 6.1        |
| Los Angeles                   | 16.5         | 14.6            | 16.9            |            |
| Orange County                 | 22.8         | n.a.            | n.a.            |            |
| San Diego                     | 22.5         | 14.2            | 27.1            |            |
| National Average              | 21.5         | 16.3            | 23.9            |            |

# LEADING INDICATORS

|      |     | <u>Manufacturing</u> |                     | <u>Help</u>        |
|------|-----|----------------------|---------------------|--------------------|
|      |     | <u>Overtime</u>      | <u>Average</u>      | <u>Wanted Ads,</u> |
|      |     | <u>Hours</u>         | <u>Weekly Hours</u> | <u>Los Angeles</u> |
| 1986 | Jan | 3.0                  | 39.4                | 117,139            |
|      | Feb | 3.4                  | 40.1                | 119,322            |
|      | Mar | 3.4                  | 40.5                | 118,988            |
|      | Apr | 3.4                  | 40.4                | 119,057            |
|      | May | 3.5                  | 40.2                | 115,165            |
|      | Jun | 3.4                  | 40.3                | 121,497            |
|      | Jul | 3.4                  | 40.2                | 118,313            |
|      | Aug | 3.4                  | 40.1                | 120,722            |
|      | Sep | 3.3                  | 40.3                | 121,504            |
|      | Oct | 3.4                  | 40.3                | 118,755            |
|      | Nov | 3.4                  | 40.4                | 126,278            |
|      | Dec | 3.3                  | 40.1                | 120,128            |
| 1987 | Jan | 4.2                  | 40.2                | 122,840            |
|      | Feb | 3.6                  | 40.3                | 129,370            |
|      | Mar | 3.4                  | 40.6                | 132,008            |

|      |     | <u>Unemployment</u>   | <u>Housing Unit</u>   | <u>New</u>            |
|------|-----|-----------------------|-----------------------|-----------------------|
|      |     | <u>Insurance</u>      | <u>Authorizations</u> | <u>Business</u>       |
|      |     | <u>Initial Claims</u> | <u>(Thousands)</u>    | <u>Incorporations</u> |
| 1986 | Jan | 65,018                | 279.8                 | 5,609                 |
|      | Feb | 63,769                | 249.7                 | 5,497                 |
|      | Mar | 64,881                | 293.7                 | 5,359                 |
|      | Apr | 61,219                | 279.2                 | 5,925                 |
|      | May | 59,002                | 274.0                 | 5,122                 |
|      | Jun | 59,863                | 273.0                 | 5,425                 |
|      | Jul | 61,056                | 280.4                 | 5,732                 |
|      | Aug | 58,902                | 262.7                 | 4,645                 |
|      | Sep | 60,069                | 303.2                 | 6,084                 |
|      | Oct | 55,164                | 352.1                 | 5,608                 |
|      | Nov | 54,606                | 306.6                 | 4,779                 |
|      | Dec | 59,450                | 522.2                 | 5,916                 |
| 1987 | Jan | 57,054                | 288.4                 | 5,622                 |
|      | Feb | 57,270                | 233.9                 | 5,366                 |
|      | Mar | 56,008                | n.a.                  | n.a.                  |

| California Index of Leading<br>Economic Indicators |     |       |     |       |      |     |       |
|----------------------------------------------------|-----|-------|-----|-------|------|-----|-------|
| 1986                                               | Jan | 139.2 | Jun | 144.2 | 1987 | Nov | 146.7 |
|                                                    | Feb | 142.0 | Jul | 143.5 |      | Dec | 146.3 |
|                                                    | Mar | 143.3 | Aug | 143.1 |      | Jan | 148.1 |
|                                                    | Apr | 143.5 | Sep | 144.2 |      | Feb | 149.7 |
|                                                    | May | 143.3 | Oct | 145.1 |      |     |       |

Note: All data seasonally adjusted.

# COINCIDENT INDICATORS

|      |     | Nonagricultural<br>Employment<br>(Thousands) | Manufacturing<br>Employment<br>(Thousands) | Unemployment<br>Rate<br>(Thousands) | Insured<br>Unemployment<br>Average<br>Weeks Claimed<br>(Thousands) |
|------|-----|----------------------------------------------|--------------------------------------------|-------------------------------------|--------------------------------------------------------------------|
| 1986 | Jun | 11,245                                       | 2,060                                      | 6.6                                 | 392                                                                |
|      | Jul | 11,260                                       | 2,048                                      | 7.0                                 | 393                                                                |
|      | Aug | 11,270                                       | 2,040                                      | 6.6                                 | 384                                                                |
|      | Sep | 11,291                                       | 2,028                                      | 6.4                                 | 392                                                                |
|      | Oct | 11,315                                       | 2,043                                      | 6.6                                 | 377                                                                |
|      | Nov | 11,342                                       | 2,048                                      | 6.8                                 | 378                                                                |
|      | Dec | 11,366                                       | 2,051                                      | 6.7                                 | 389                                                                |
| 1987 | Jan | 11,436                                       | 2,057                                      | 6.2                                 | 357                                                                |
|      | Feb | 11,471                                       | 2,054                                      | 6.2                                 | 368                                                                |
|      | Mar | 11,490                                       | 2,051                                      | 6.0                                 | 394                                                                |
|      | Apr | 11,525                                       | 2,052                                      | 5.8                                 | n.a.                                                               |

|      |         | Personal<br>Income<br>(Millions) | Wages & Salaries from<br>Mining, Construction &<br>Manufacturing<br>(Millions) | Taxable Sales<br>(Millions) |
|------|---------|----------------------------------|--------------------------------------------------------------------------------|-----------------------------|
| 1986 | Qtr I   | \$444,552                        | \$69,896                                                                       | \$52,726                    |
|      | Qtr II  | \$451,568                        | \$71,358                                                                       | \$53,540                    |
|      | Qtr III | \$452,686                        | \$71,025                                                                       | \$55,310                    |
|      | Qtr IV  | \$461,314                        | \$72,268                                                                       | \$55,746                    |

# OTHER INDICATORS

|      |         | DOD Prime Contracts<br>(Millions) |      |     | Electricity Production<br>(Million Kwh) |
|------|---------|-----------------------------------|------|-----|-----------------------------------------|
| 1985 | Qtr I   | 7,941                             | 1986 | Mar | 10,972                                  |
|      | Qtr II  | 4,057                             |      | Apr | 11,030                                  |
|      | Qtr III | 8,526                             |      | May | 11,013                                  |
|      | Qtr IV  | 7,828                             |      | Jun | 10,759                                  |
| 1986 | Qtr I   | 8,173                             |      | Jul | 10,041                                  |
|      | Qtr II  | 3,629                             |      | Aug | 10,003                                  |
|      | Qtr III | 8,109                             |      | Sep | 9,115                                   |
|      |         |                                   |      | Oct | 9,897                                   |
|      |         |                                   | 1987 | Nov | 9,607                                   |
|      |         |                                   |      | Dec | 9,169                                   |
|      |         |                                   | 1987 | Jan | 9,777                                   |
|      |         |                                   |      | Feb | 10,626                                  |

Note: All data seasonally adjusted.

## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are production worker man-hours, insured unemployment, manufacturing employment, and taxable sales. These series are discussed in the technical note below.

### TECHNICAL NOTE

Whenever appropriate, data used in the charts have been seasonally adjusted. The series on average weekly hours of production workers in manufacturing and production worker man-hours are adjusted by the Bureau of Labor Statistics method. Other series have been adjusted by the Bureau of the Census (Shiskin) method. Persons interested in a detailed description of these methods are referred to the U.S. Department of Labor, Bureau of Labor Statistics, the BLS Seasonal Factor Method (1964); and the U.S. Department of Commerce, Bureau of the Census, Technical Paper No. 15, The X-11 Variant of the Census Method II. Seasonal Adjustment Program (November 1965).

Under the Census Bureau seasonal method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

#### Production Worker Man-Hours

This series is a substitute for the man-hours in nonagricultural establishments series used in the Census Bureau's publication, Business Cycle

Developments. It is the cross product of average weekly hours of production workers in manufacturing and manufacturing employment. Workweek data are a leading indicator. Manufacturing employment appears to be a coincident indicator, although at times it seems to lead economic downturns. Because of this, the man-hours series has been classified in the present publication as a leading indicator.

#### Insured Unemployment

The series on total insured unemployment is being used rather than the insured unemployment rate included in the Census Bureau's indicator list. The insured rate is available only with a lag of nine months, which precludes its usefulness as a current indicator.

#### Manufacturing Employment

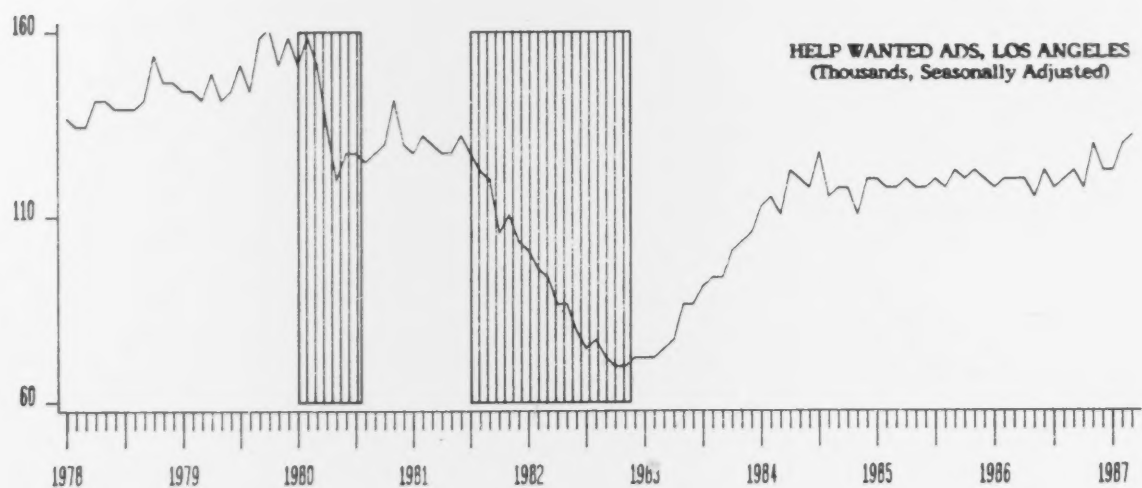
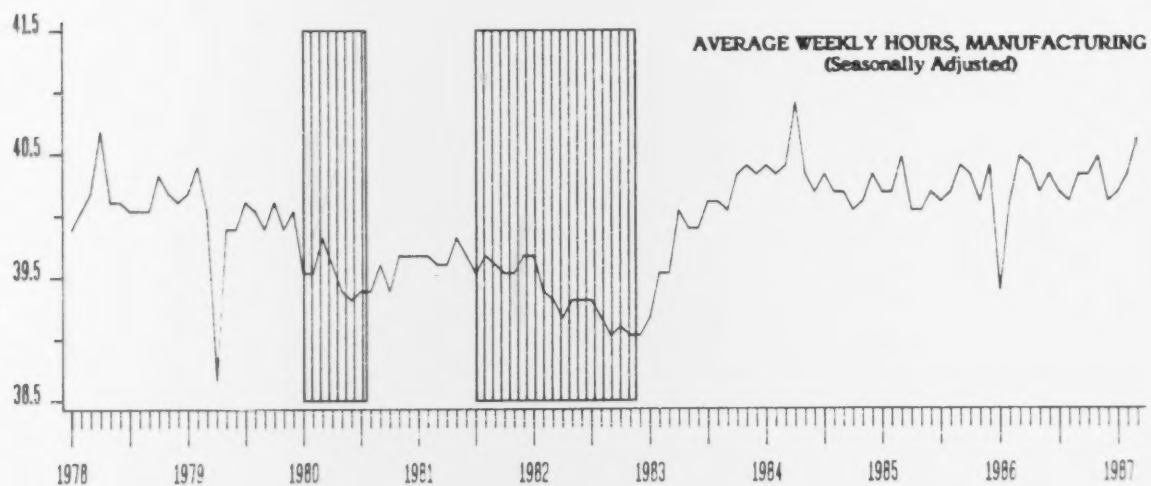
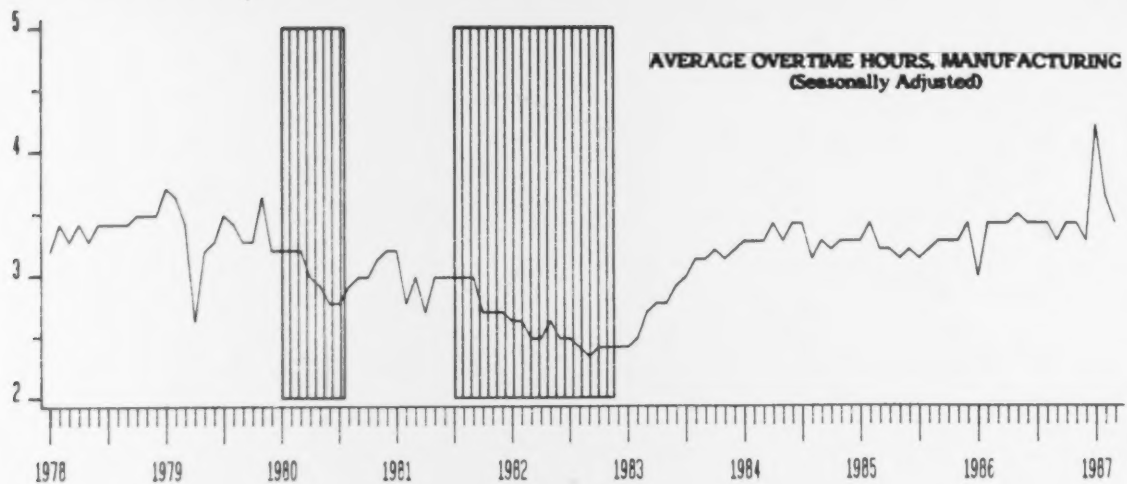
This series is also an addition to the Census Bureau indicator list. It was used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

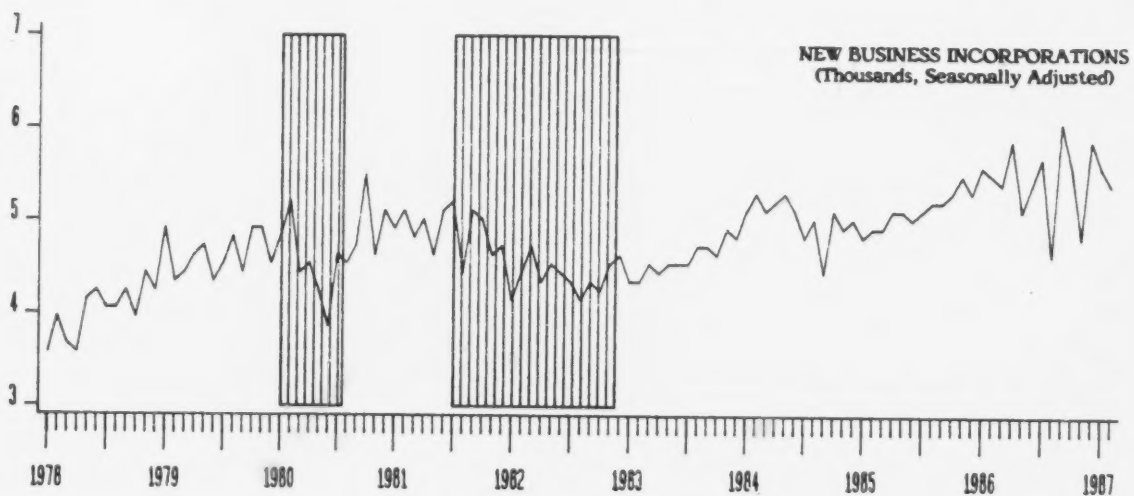
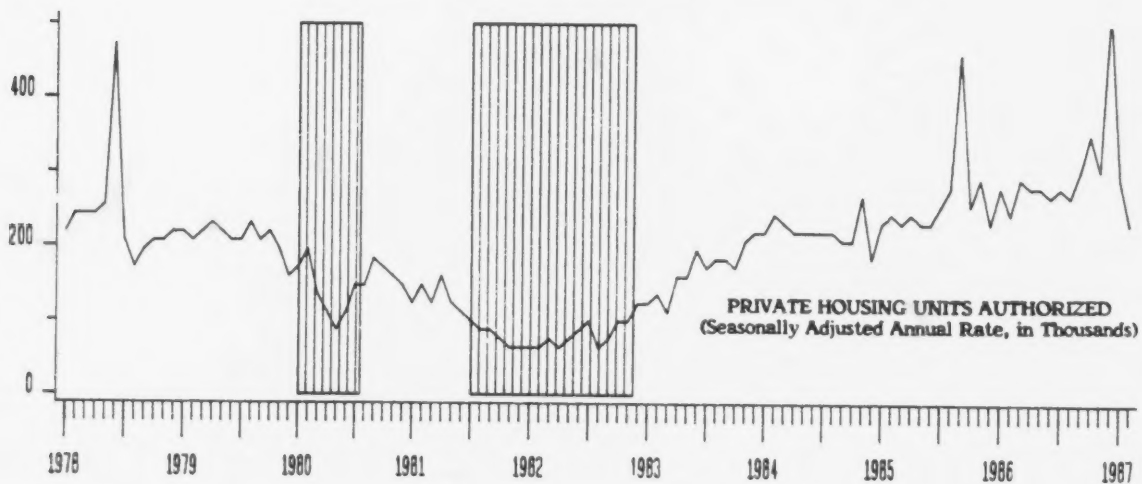
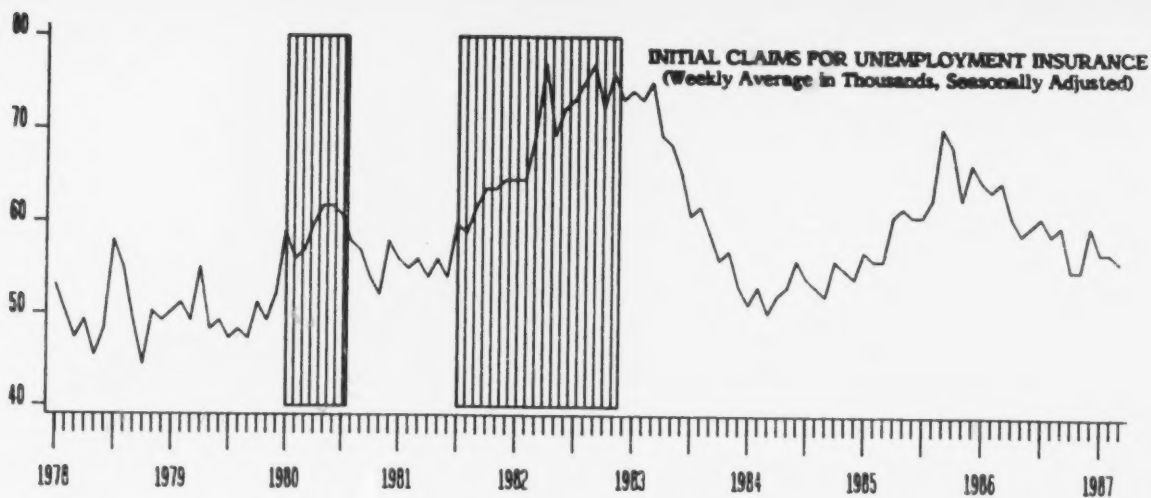
#### Taxable Sales

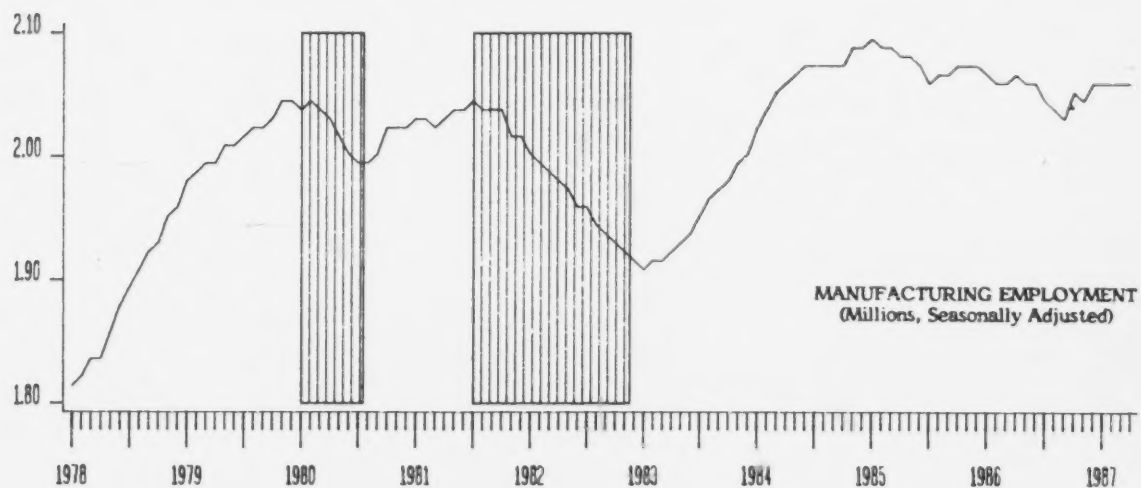
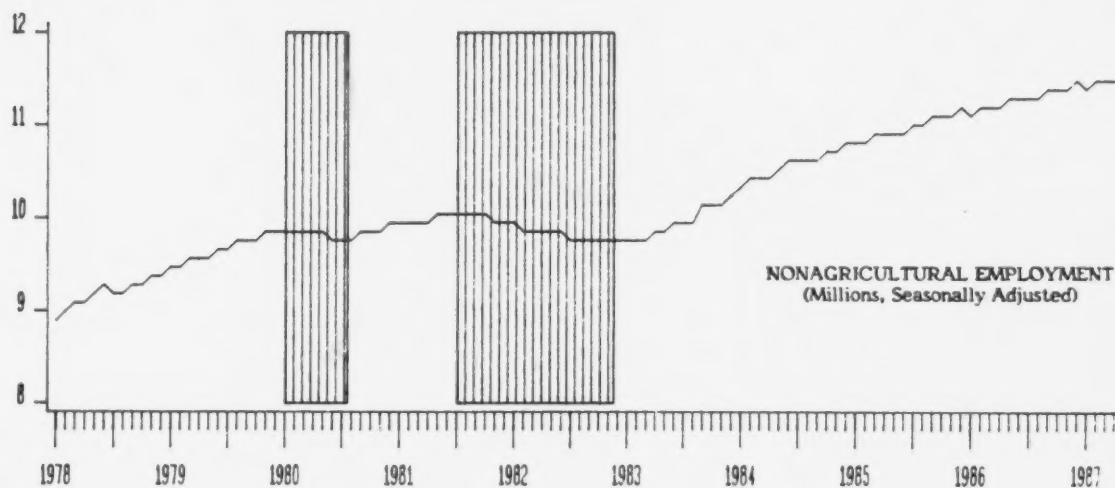
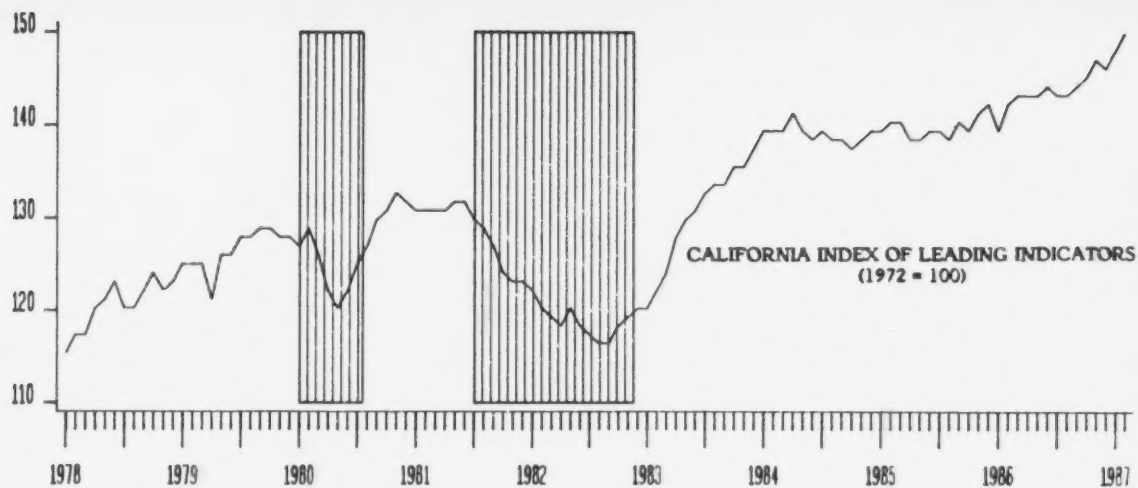
Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is therefore a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

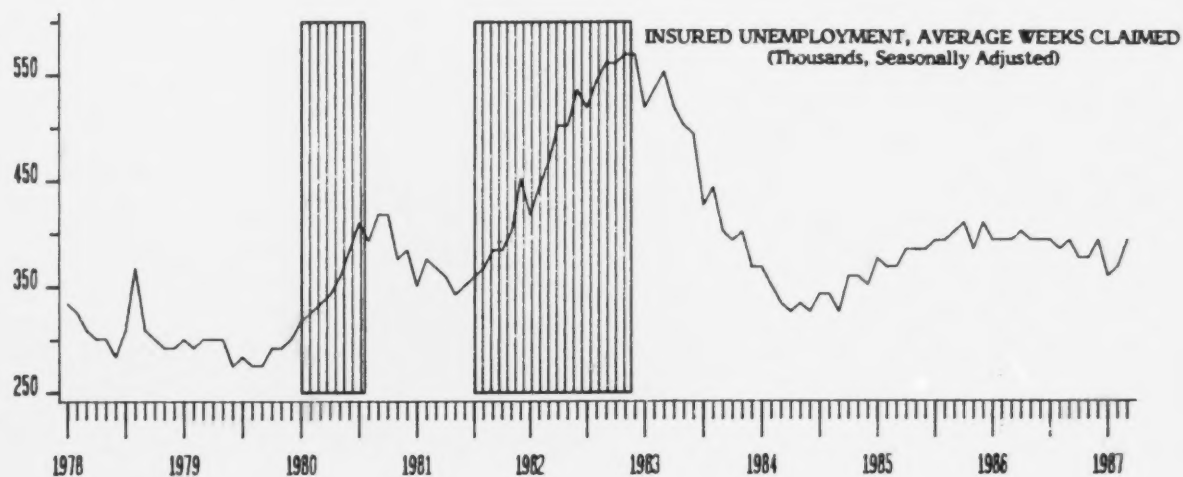
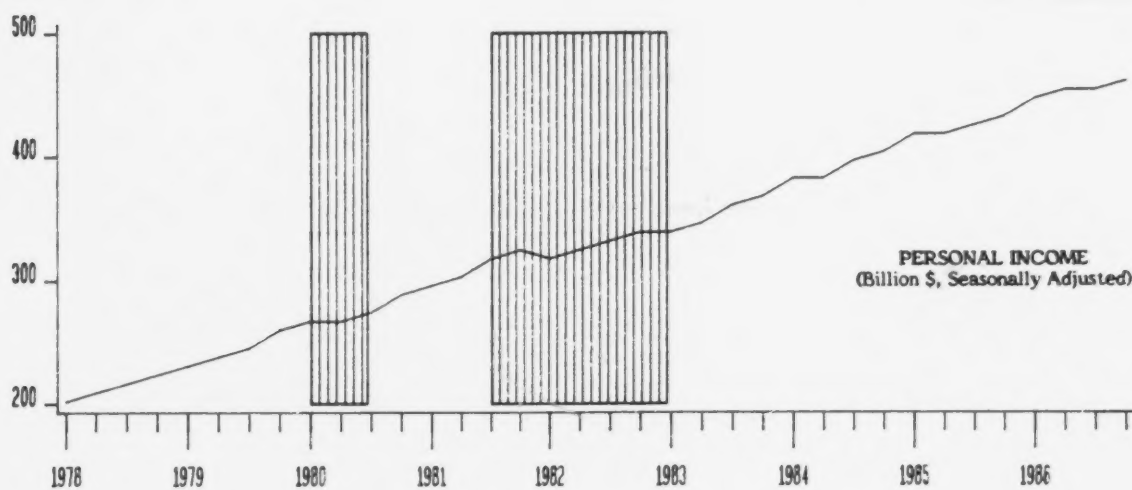
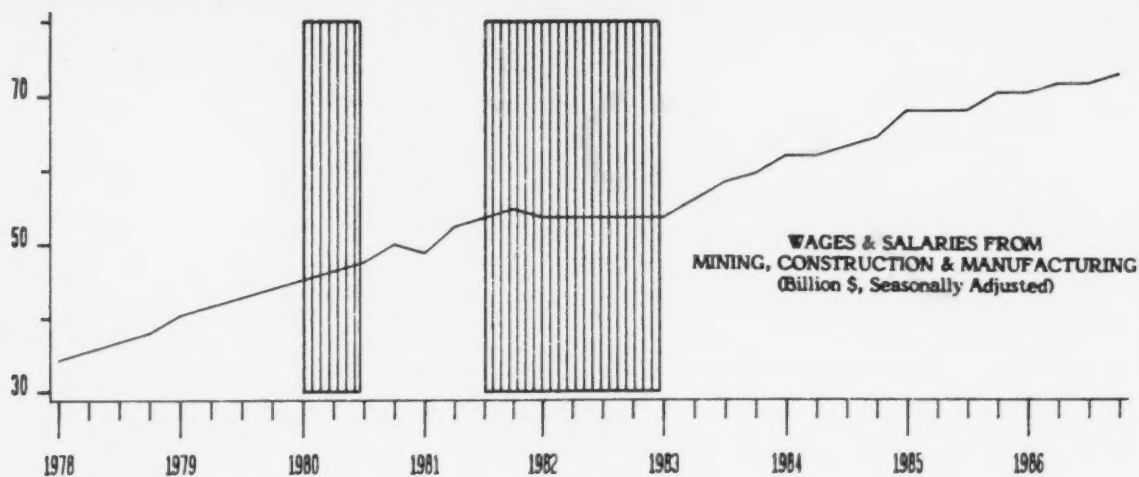
The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

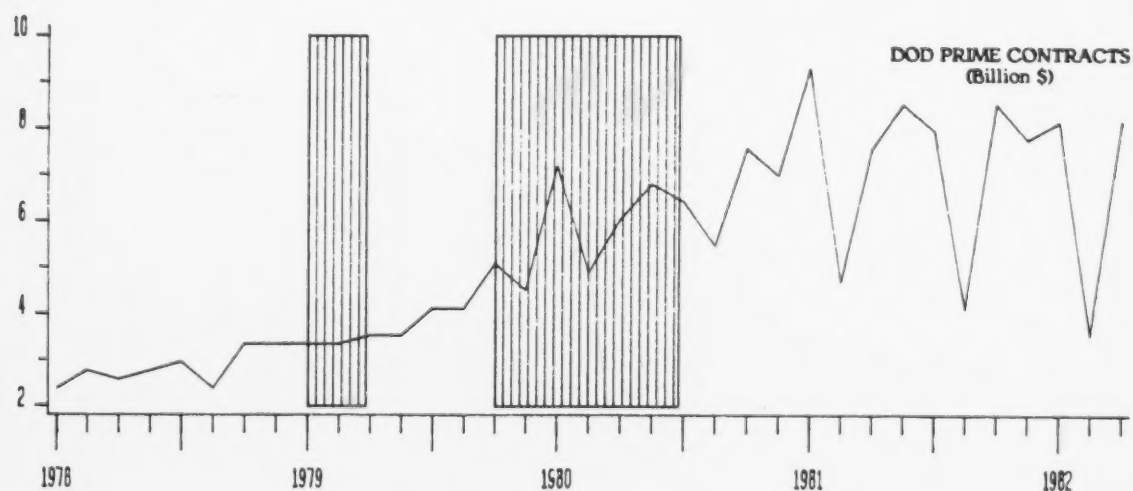
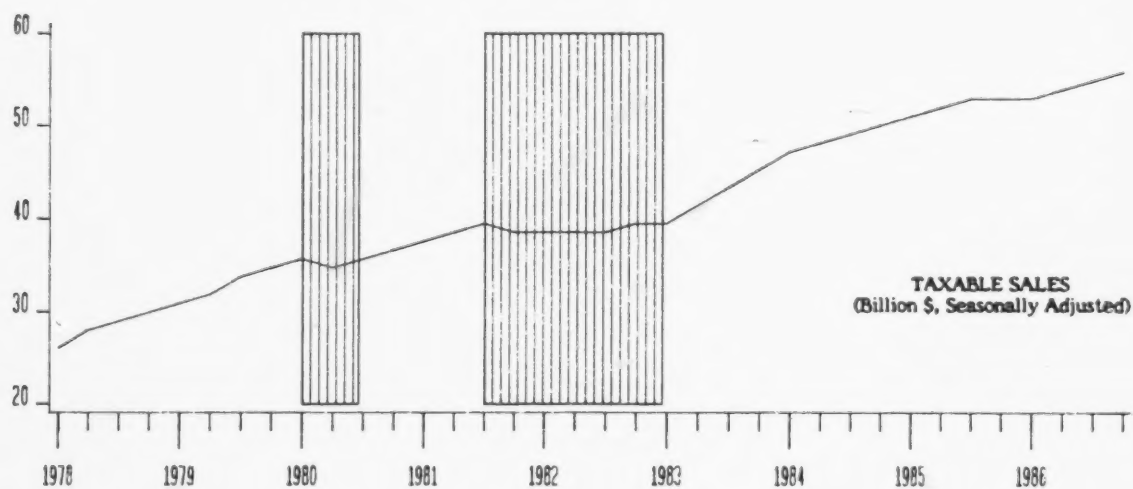


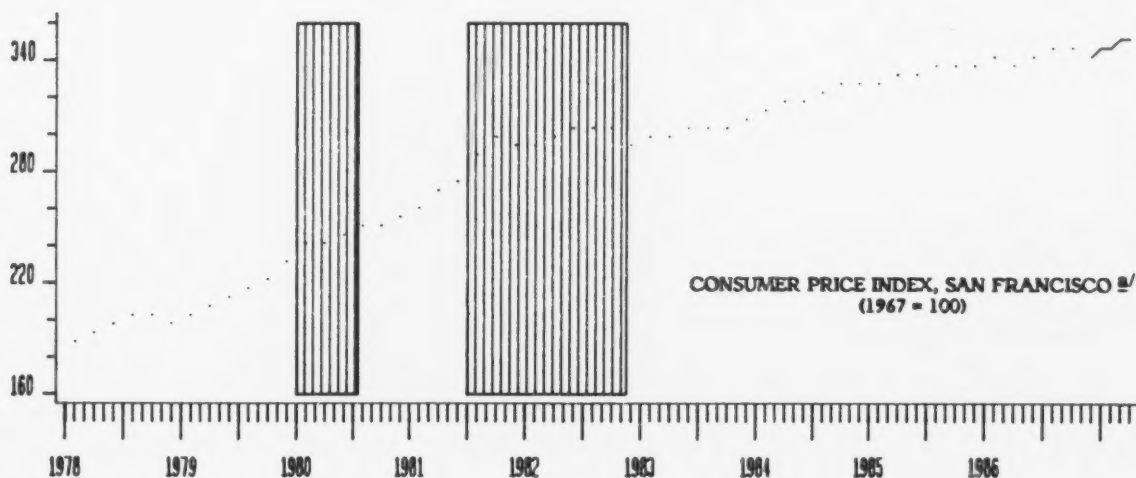
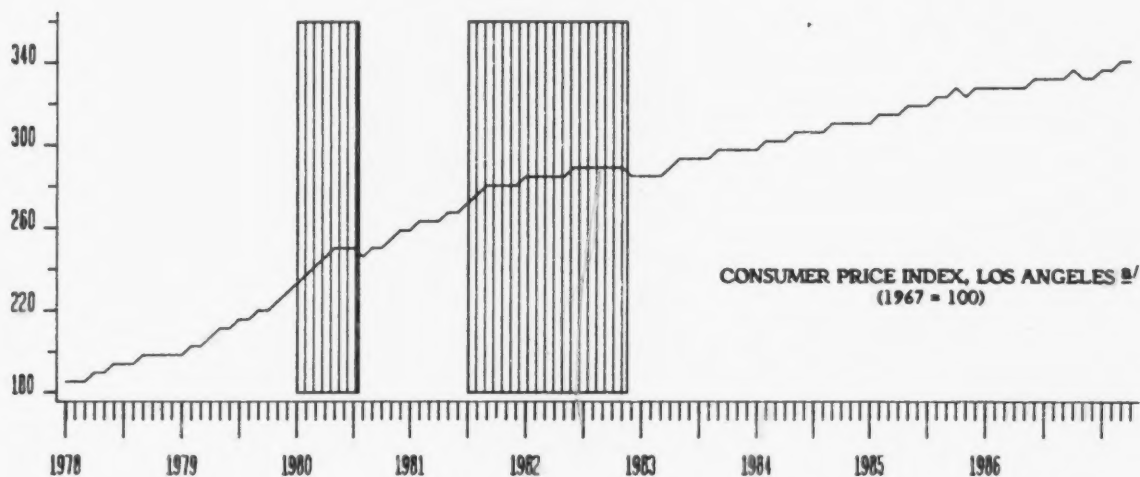
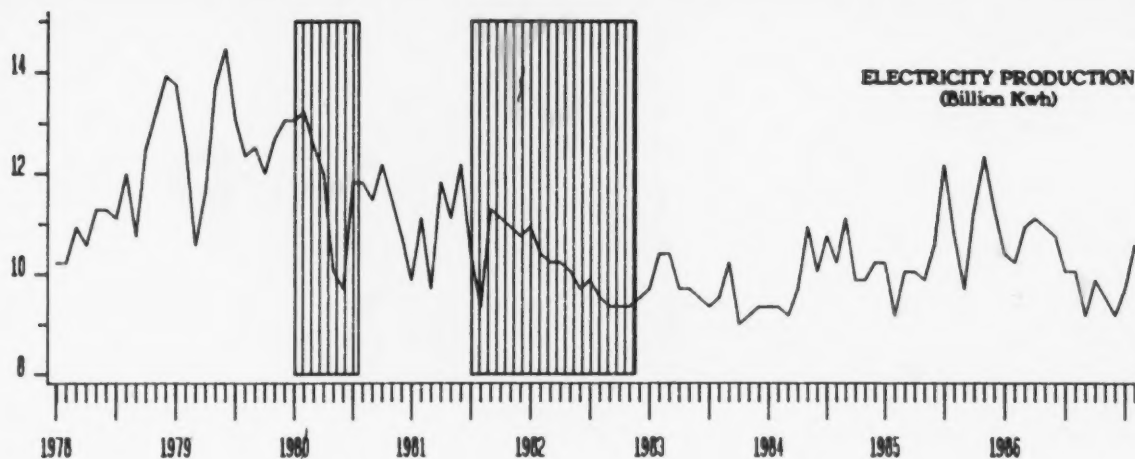














## CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national events of general interest have also been included.

| <u>1980</u> |                                                                                  | <u>1980--Continued</u> |                                                                                           |
|-------------|----------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------|
| February 25 | Prime rate raised to 16-1/2 percent.                                             | April 28               | FHA mortgages reduced to 13 percent.                                                      |
| February 27 | Ceilings on interest rates for government backed mortgages raised to 13 percent. |                        | Prime rate reduced to 18-1/2 percent.                                                     |
|             |                                                                                  | May 5                  | Prime rate reduced to 18 percent.                                                         |
| February 29 | Prime rate raised to 16-3/4 percent.                                             | May 7                  | Prime rate reduced to 17 percent.                                                         |
| March 4     | Prime rate raised to 17-1/4 percent.                                             | May 8                  | Discount rate surcharge reimposed.                                                        |
| March 7     | Prime rate raised to 17-3/4 percent.                                             | May 12                 | Prime rate reduced to 16-1/2 percent.                                                     |
| March 13    | Prime rate raised to 18-1/4 percent.                                             | May 19                 | Prime rate reduced to 16 percent.                                                         |
| March 14    | Announcement of tighter fiscal policies.                                         | May 28                 | Discount rate lowered to 12 percent. Some conventional mortgage rates fell to 12 percent. |
| March 17    | Three percent discount rate surcharge imposed.                                   |                        |                                                                                           |
| March 18    | Prime rate raised to 19 percent.                                                 | June 25                | Carpenters strike in Northern California ended.                                           |
| April 2     | Prime rate raised to 20 percent.                                                 | July 3                 | ICC begins trucking industry deregulation.                                                |
| April 3     | FHA mortgages raised to 14 percent.                                              | July 21-<br>October 23 | Motion picture and television industry strike.                                            |
| April 20    | Prime rate reduced to 19-1/2 percent.                                            |                        |                                                                                           |

# CHRONOLOGY--Continued

## 1980--Continued

July 22 Prime rate reduced to 11 percent.

July 25 Prime rate reduced to 10-3/4 percent.

July 28 Discount rate reduced to 10 percent.

August 5 Prime rate raised to 11 percent.

August 27 Prime rate raised to 11-1/2 percent.

September 5 FHA mortgage interest rate raised from 11-1/2 to 12 percent.

September 12 California mortgage rate raised from 13-1/2 percent to 13-3/4 percent.

September 25 Pacific Southwest Airlines (PSA) pilots strike begins.

September 26 Discount rate raised from 10 to 11 percent. Prime rate raised from 12-1/2 percent to 12-3/4 percent.

October 2 Prime raised from 13 to 13-1/2 percent.

October 3 Prime raised to 14 percent.

October 15 AFTA workers return to work.

October 30 Prime raised from 14 to 14-1/2 percent.

November 7 Prime raised from 14-1/2 to 15-1/2 percent.

November 14 PSA pilots strike ends.

## 1980--Continued

November 17 Prime raised to 16 1/4 percent. Discount rate raised from 11 to 12 percent and surcharge imposed.

November 21 Prime raised to 17 percent.

November 28 Prime raised to 17-3/4 percent.

December 3 Prime raised from 17-3/4 to 18-1/2 percent.

December 5 Discount rate raised from 12 to 13 percent. Prime raised to 19 percent.

December 11 Prime raised to 20 percent.

December 17 Prime raised from 20 to 21 percent.

December 23 Prime lowered from 21 to 20-1/2 percent.

## 1981

January 1 Minimum wage raised from \$3.10 to \$3.35.

January 6 Prime lowered to 20 percent.

January 20 American hostages released from Iran.

January 20 Ronald Reagan inaugurated as 40th President of the U.S.

January 28 Deregulation of oil and gas industry announced, effective immediately.

January 29 Prime rate lowered to 19-1/2 percent from 20 percent.

# CHRONOLOGY--Continued

| <u>1981--Continued</u> |                                                                                                 | <u>1981--Continued</u>    |                                                                            |
|------------------------|-------------------------------------------------------------------------------------------------|---------------------------|----------------------------------------------------------------------------|
| February 16            | General Motors and Ford rebate plans announced.                                                 | June 5                    | Dollar reaches highest level in international trading since December 1971. |
| February 23            | Prime rate lowered to 18 percent.                                                               | July 8                    | Prime rate raised to 20-1/2 percent.                                       |
| March 2                | Prime rate lowered to 18-1/2 percent.                                                           | August 3<br>Jan. 17, 1986 | Professional Air Traffic Controller's Organization strike.                 |
| March 10               | Prime rate lowered to 18 percent.                                                               | August 14                 | President Reagan signs both the tax- and budget-cut bills into law.        |
| March 16               | Prime rate lowered to 17-1/2 percent.                                                           | August 18                 | FHA-VA rate up to 16-1/2 percent from 15-1/2 percent.                      |
| March 18               | Prime rate lowered to 17 percent.                                                               | September 1               | Prime rate lowered to 20 percent.                                          |
| March 26-<br>June 8    | United mine workers strike.                                                                     | September 21              | Prime rate lowered to 19-1/2 percent.                                      |
| April 13               | Prime rate raised to 17-1/2 percent.                                                            | September 22              | Fed surcharge cut to 3 percent from 4 percent.                             |
| April 29               | Prime rate raised to 18 percent.                                                                | October                   | Introduction of All Savers Certificates to stimulate savings.              |
| May 4                  | Prime rate raised to 19 percent.                                                                | October 6                 | Prime rate lowered to 19 percent.                                          |
| May 5                  | Discount rate raised from 13 percent to 14 percent.                                             |                           | Egyptian President Sadat assassinated.                                     |
| May 8                  | FHA-VA rate up to 15-1/2 percent from 14-1/2 percent.                                           | October 13                | Prime rate lowered to 18 percent.                                          |
| May 11                 | Prime rate raised to 19-1/2 percent.                                                            | October 30                | OPEC price set at \$34.00/barrel--the Saudi benchmark.                     |
| May 22                 | Prime rate raised to 20 percent.                                                                | November 1                | Passbook interest rate raised 1/2 percent to 5-3/4 percent.                |
| May 27                 | OPEC fails to agree on a uniform price schedule. OPEC officials freeze prices at current level. |                           |                                                                            |

# CHRONOLOGY--Continued

## 1981--Continued

November 2 Fed discount rate cut from 14 percent to 13 percent.  
Prime rate lowered to 17-1/2 percent.

November 10 Prime rate lowered to 17 percent.

November 13 Prime rate lowered to 16-1/2 percent.  
FHA mortgage rate lowered to 15-1/2 percent.

November 16 Prime rate lowered to 16 percent.

November 17 Fed eliminates 2 percent surcharge. Discount rate unaffected.

December 1 Prime rate lowered to 15-1/2 percent.

December 4 Fed discount rate lowered from 13 percent to 12 percent.

December 12 Martial law imposed in Poland.

## 1982

January 22 Federal funds rate raised to 13-1/2 percent.

January 25 FHA mortgage rate increased from 15-1/2 percent to 16-1/2 percent.

January 27 Federal funds rate raised to 13-3/4 percent.

## 1982--Continued

February 2 Prime rate raised to 16-1/2 percent by Citibank and Crocker.

February 18 Prime rate increased to 17 percent.

February 24 Prime rate cut back to 16-1/2 percent.

March 1 Ford-UAW Pact ratified. Workers give up two weeks of paid time off and annual 3 percent raises.

March 8 Prime rate lowered to 16 percent.

March 16 Prime rate back up to 16-1/2 percent.

April 1 OPEC cuts production to 17.5 million barrels from current 18.2. Saudi bench mark set at \$34/barrels.

April 5 Unemployment rate nationally hits 9.0 percent tying the post-WW II high in May 1975.

April 12 General Motor and United Auto Workers labor agreement approved.

April 26 The U.S. consumer price index declined 0.3 percent--the first decline in 17 years and the largest drop in nearly a quarter of a century.

May 7 U.S. unemployment rate reaches 9.4 percent for a post-WW II record.

# CHRONOLOGY--Continued

## 1982--Continued

May 13 Braniff Air Lines ceases operation.

June 25 Secretary of State Alexander Haig resigns.

June 28 U.S. Supreme Court rules that federally chartered savings and loan associations cannot be prohibited from enforcing due-on-sale clauses in their mortgage contracts.

July 20 Discount rate lowered from 12 percent to 11-1/2 percent. Prime rate lowered from 16-1/2 percent to 16 percent.

July 27 Prime rate lowered to 15-1/2 percent.

August 2 Discount rate lowered to 11 percent. Prime rate lowered to 15 percent.

August 9 Unemployment rate reached 9.8 percent in July--the highest level since a 9.9 percent rate in 1941.

August 16 Discount rate cut from 11 percent to 10-1/2 percent. Most major banks lower their prime lending rates to 14-1/2 percent.

August 18 Dow Jones Industrial Average rose 38.81 points--an all-time record.

August 19 The stock market trading soared to a record 132,690,000 shares.

August 27 Discount rate lowered to 10 percent. Prime rate lowered to 13.5 percent.

## 1982--Continued

November 23 Prime rate lowered from 12 percent to 11-1/2 percent.

December 13 Discount rate cut to 8-1/2 percent.

December 14 Introduction of money market deposit accounts by banks and S&Ls.

1983

January 5 Super NOW accounts introduced.

January 11 Prime rate lowered to 11 percent.

January 31 Independent truckers strike begins.

February 10 Independent truckers strike end.

February 15 Toyota/GM agreement to build a small car in late 1984.

February 25 Prime rate lowered to 10-1/2 percent.

March 14 OPEC sets \$29 per barrel benchmark price and production quota of 17.5 million barrels.

May 2 A 6.5 magnitude earthquake strikes the town of Coalinga.

An earthquake measuring 6.5 on the Richter scale strikes Coalinga, California.

June 8 The maximum rate on government-backed mortgages was raised from 11-1/2 percent to 12 percent.

June 18 Paul Volcker reappointed as Federal Reserve Board Chairman.



## CHRONOLOGY—Continued

### 1983—Continued

June 24      The Federal Budget deficit totalled a record \$29.29 billion in May.

July 7        The maximum rate on government-backed mortgages was raised from 12 percent to 12-1/2 percent.

July 13      Chrysler Corporation announced it will repay the remaining \$800 million in federally guaranteed loans by September, seven years before they are due.

July 25      The Washington Public Power Supply System defaulted on \$2.25 billion in bonds, creating the largest municipal default in U.S. history.

August 1     California's \$1.2 billion offering of revenue-anticipation notes, the State's largest note issue, drew strong investor interest. Notes totalling \$700 million, maturing next April and June, were oversubscribed.

August 2     The maximum rate on government backed mortgages rose from 12-1/2 percent to 13-1/2 percent.

August 7-  
August 28    The Communications Workers of America and two other unions strike AT&T.

August 8     Prime rate raised from 10-1/2 percent to 11 percent by most major banks.

### 1983—Continued

August 23    The maximum rate on government backed mortgages fell from 13-1/2 percent to 13 percent.

September 1   Soviet Union shoots down Korean Airlines Flight 007, New York to Seoul, near the Soviet Island of Salhalin, just north of Japan.

November 1    Maximum rate on VA & FHA mortgages lowered from 13 percent to 12.5 percent.

November 3-  
December 21   Strike against Greyhound Lines Inc.

December 1    FHA mortgage interest rates begin to float. VA rates are still pegged.

### 1984

January 3     Breakup of AT&T becomes effective.

February 2    Contemporaneous reserve accounting is required by Fed for all but the very small deposit-taking institutions.

March 19      Prime rate raised from 11 percent to 11-1/2 percent.

March 20      Maximum rate on VA loans raised from 12-1/2 to 13 percent.

April 4        Prime rate raised from 11-1/2 percent to 12 percent.

April 9        Discount rate raised from 8-1/2 percent to 9 percent; the first change in 3 years.

May 5         Prime rate raised from 12 percent to 12-1/2 percent.



## CHRONOLOGY--Continued

### 1984--Continued

June 26 Prime rate raised from 12-1/2 percent to 13 percent.

September 3 - Hotel and restaurant  
December 7 strike - San Francisco.

September 15 - UAW-General Motors strike.  
October 14

September 28 Prime rate reduced from 13 percent to 12-3/4 percent.

October 16 Prime rate reduced from 12-3/4 percent to 12-1/2 percent.

October 28 Prime rate reduced from 12-1/2 percent to 12 percent.

November 7 Prime rate reduced from 12 percent to 11-3/4 percent.

November 21 Discount rate reduced from 9 percent to 8-1/2 percent.

November 28 Prime rate reduced from 11-3/4 percent to 11-1/4 percent.

December 17 Prime rate reduced from 11-1/4 percent to 10-3/4 percent.

December 24 Discount rate reduced from 8-1/2 percent to 8 percent.

### 1985

January 1 Federal price controls removed from approximately half of the natural gas produced in the United States.

### 1985 Continued

January 15 Prime rate reduced from 10-3/4 percent to 10-1/2 percent.

March 9 Home State Savings Bank Cincinnati, Ohio closed.

March 15 Seventy Ohio thrift institutions closed to prevent run on deposits.

March 25 Maximum rate on VA loans raised from 12-1/2 percent to 13 percent.

May 2 Auto manufacturer's initiate low interest loan programs.

May 17- June 14 United Airlines--Air Pilots Association strike.

May 17 Prime rate reduced from 10-1/2 percent to 10 percent.

May 20 Dow Jones Industrials close above 1,300 for the first time.

May 29 Presidents' tax reform plan unveiled.

June 18 Prime rate reduced to 9 1/2 percent from 10 1/2 percent.

July 16 Conventional mortgage rates fell to 12.03 percent average--the lowest since October 1979.

July 22- October 16 8,200 steelworkers on strike at Wheeling Pittsburgh--the industry's first major walkout in 26 years.

August 15 GM announces 7.7 percent financing rate program to run through October 2nd.

## CHRONOLOGY--Continued

### 1985--Continued

August 20 Ford and Chrysler announce incentive plans including low interest loans and rebates on 1985 autos.

September 4 The Farm Credit System seeks a Federal bailout of its \$74 billion loan portfolio.

September 15 A State Department of Housing and Community Development regulation requiring equal access on accessible levels of apartment houses with five or more units, for handicapped persons, went into effect.

September 16 Saudi Arabia announces plans to boost oil production and cut prices.

September 22 G-5 agreement to push the dollar lower.

November 7 Dow Jones Industrials close above 1400 for the first time.

December 10 World oil prices fall by more than a dollar after OPEC decides to abandon price supports.

December 12 President Reagan signs the budget deficit bill into law, raising the debt ceiling to \$2 trillion and setting deficit targets for each year through 1991.

December 23 President Reagan signs the farm subsidy bill into law, creating a 5-year plan to bail out the Farm Credit System.

### 1986

January 1 Ceiling on Super NOW accounts was removed.

January 17 United Steel workers leaders agreed to allow rank-and-file members to vote on labor contracts for the first time in the union's history.

January 28 Space shuttle Challenger explosion destroys the spacecraft. Seven crew members died.

February 26 Corazon Aquino takes over Phillipines as the new president.

March 3 Dow Jones Industrials close above 1700 for the first time.

March 4 Yields on 10-year Treasury Notes fall below 8 percent for the first time in eight years.

Oil prices fall to \$12 per barrel.

March 7 The discount rate reduced from 7-1/2 percent to 7 percent, following similar cuts by Germany & Japan.

March 21 Dow Jones Industrials close above 1800 for the first time.

Conservative Chirac appointed as Prime Minister of France.

March 25 U.S. warplanes attacked two Libyan ships and a shoreline missile site after Libyan missiles were fired at U.S. planes in the Gulf of Sidra.

April 1 Interest ceilings on passbook saving accounts ended.

# CHRONOLOGY--Continued

## 1986--Continued

|                    |                                                                                                                                            |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| April 1            | Oil prices fall to under \$11 per barrel.                                                                                                  |
| April 14           | U.S. air strike against Libya.                                                                                                             |
| April 21           | U.S. Dollar reaches a post-WWII low against the Yen at 168.60.<br><br>Discount rate cut from 7 percent to 6-1/2 percent.                   |
| April 23           | Paul Volcker warns of public and private debt buildup as a threat to the economy.                                                          |
| April 25           | Soviet nuclear plant at Chernobyl destroyed by fire.                                                                                       |
| May 12             | U.S. dollar falls to 159.95 Yen.                                                                                                           |
| May 22             | U.S. proposes 35 percent tariff on Canadian cedar shakes and shingles for roofing, leading to a trade dispute between the U.S. and Canada. |
| June 1-<br>June 26 | CWA strike at AT&T.                                                                                                                        |
| July 7             | The U.S. Supreme Court ruled that the Gramm-Rudman-Hollings mechanism for across the-board, automatic spending cuts was unconstitutional.  |
| July 7             | The Dow Jones Industrial average was down a record 61.87 points.                                                                           |

## 1986--Continued

|                            |                                                                                                                                                |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| July 10                    | The Fed lowered the discount rate from 6-1/2% to 6%.                                                                                           |
| August 1                   | United steelworkers strike for the first time since 1959. 44,000 workers were involved.                                                        |
| August 20                  | The discount rate was reduced from 6 percent to 5-1/2 percent.                                                                                 |
| August 27                  | The prime rate was cut to 7-1/2 percent from 8 percent.                                                                                        |
| August 28                  | General Motors Corp. introduces a new incentive program to lure consumers by an unprecedented auto loan rate of 2.9 percent.                   |
| September 4                | Stock market prices soared as the Dow Jones Industrial average jumped 38.38 points to a closing record of 1919.17.                             |
| September 5                | California bank and corporation tax law was amended to provide for a "Waters-Edge" election. This is an alternate treatment of taxable income. |
| September 11               | The Dow Jones Industrial average plummeted a record 86.61 points, or 4.61 percent to 1792.89.                                                  |
| October 22                 | President Reagan signs the tax reform bill into law, the first full scale remodification since 1954.                                           |
| October 27-<br>December 13 | Union employees from Kaiser Foundation Hospital, Kaiser Permanente Medical Group, Inc. & Kaiser Foundation Health Plan strike.                 |

# CHRONOLOGY--Continued

## 1986--Continued

November 1 The savings bond rate dropped from 7-1/2 percent to 6 percent, affecting new issues only.

## 1987

January 1 California Legislature approved a measure, effective Jan. 1, 1987, giving school districts the local option to access \$1.50 per square foot on new residential construction and \$.25 per square foot on new nonresidential construction.

Fannie Mae raises mortgage ceiling to \$153,100 from \$133,250.

OPEC's 7 percent production cut went into effect. U.S. oil prices hit \$18 per barrel.

January 8 The Dow Jones Industrial average topped the 2000 mark.

January 19 The Dow Jones Industrial average topped the 2100 mark.

The California Trade Office opened in Tokyo.

The dollar fell to a record low against the yen--150.49 yen to the dollar.

January 22 The Dow Jones Industrial average posted a record 51.60 percent gain to a new high of 2145.67.

## 1987--Continued

February 5 Brazil suspends interest payments on commercial debt.

The Dow Jones Industrial average topped the 2200 mark.

March 5 Ecuador is rocked by severe earthquake.

March 16 Fannie Mae announces it will not enter home equity loan market.

March 20 The Dow Jones Industrial average topped the 2300 mark.

March 24 U.S. dollar falls to post WW II low--148.5 yen to the dollar.

April 1 The prime rate increased from 7-1/2 to 7-3/4 percent.

April 6 The Dow Jones Industrial average topped the 2400 mark.

April 13 The California Trade Office opened in London.

May 1 The prime rate was increased from 7-3/4 percent to 8 percent.

May 7 The Farm Credit System formally asked Congress for a \$6 billion loan from the Treasury.

May 15 The prime rate was boosted to 8-1/4 percent from 8 percent.

May 17 The U.S.S. Stark was struck by an air-launched Iraqi missile in the Persian Gulf.

# REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-1982

| <u>Initial<br/>Trough</u> |      | <u>Peak</u> |      | <u>Terminal<br/>Trough</u> |      | <u>Expansion<br/>(months)</u> | <u>Contraction<br/>(months)</u> | <u>Total<br/>(months)</u> |
|---------------------------|------|-------------|------|----------------------------|------|-------------------------------|---------------------------------|---------------------------|
| Dec.                      | 1854 | June        | 1857 | Dec.                       | 1858 | 30                            | 18                              | 48                        |
| Dec.                      | 1858 | Oct.        | 1860 | June                       | 1861 | 22                            | 8                               | 30                        |
| June                      | 1861 | April       | 1865 | Dec.                       | 1867 | 46                            | 32                              | 78                        |
| Dec.                      | 1867 | June        | 1869 | Dec.                       | 1870 | 18                            | 18                              | 36                        |
| Dec.                      | 1870 | Oct.        | 1873 | March                      | 1879 | 34                            | 65                              | 99                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1879 | March       | 1882 | May                        | 1885 | 36                            | 38                              | 74                        |
| May                       | 1885 | March       | 1887 | April                      | 1888 | 22                            | 13                              | 35                        |
| April                     | 1888 | July        | 1890 | May                        | 1891 | 27                            | 10                              | 37                        |
| May                       | 1891 | Jan.        | 1893 | June                       | 1894 | 20                            | 17                              | 37                        |
| June                      | 1894 | Dec.        | 1895 | June                       | 1897 | 18                            | 18                              | 36                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| June                      | 1897 | June        | 1899 | Dec.                       | 1900 | 24                            | 18                              | 42                        |
| Dec.                      | 1900 | Sept.       | 1902 | Aug.                       | 1904 | 21                            | 23                              | 44                        |
| Aug.                      | 1904 | May         | 1907 | June                       | 1908 | 33                            | 13                              | 46                        |
| June                      | 1908 | Jan.        | 1910 | Jan.                       | 1912 | 19                            | 24                              | 43                        |
| Jan.                      | 1912 | Jan.        | 1913 | Dec.                       | 1914 | 12                            | 23                              | 35                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| Dec                       | 1914 | Aug.        | 1918 | March                      | 1919 | 44                            | 7                               | 51                        |
| March                     | 1919 | Jan.        | 1920 | July                       | 1921 | 10                            | 18                              | 28                        |
| July                      | 1921 | May         | 1923 | July                       | 1924 | 22                            | 14                              | 36                        |
| July                      | 1924 | Oct.        | 1926 | Nov.                       | 1927 | 27                            | 13                              | 40                        |
| Nov.                      | 1927 | Aug.        | 1929 | March                      | 1933 | 21                            | 43                              | 64                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1933 | May         | 1937 | June                       | 1938 | 50                            | 13                              | 63                        |
| June                      | 1938 | Feb.        | 1945 | Oct.                       | 1945 | 80                            | 8                               | 88                        |
| Oct.                      | 1945 | Nov.        | 1948 | Oct.                       | 1949 | 37                            | 11                              | 48                        |
| Oct.                      | 1949 | July        | 1953 | May                        | 1954 | 45                            | 10                              | 55                        |
| May                       | 1954 | Aug.        | 1957 | April                      | 1958 | 39                            | 8                               | 47                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| April                     | 1958 | April       | 1960 | Feb.                       | 1961 | 24                            | 10                              | 34                        |
| Feb.                      | 1961 | Dec.        | 1969 | Nov.                       | 1970 | 106                           | 11                              | 117                       |
| Nov.                      | 1970 | Nov.        | 1973 | March                      | 1975 | 36                            | 16                              | 52                        |
| March                     | 1975 | Jan.        | 1980 | July                       | 1980 | 58                            | 6                               | 64                        |
| July                      | 1980 | July        | 1981 | Nov.                       | 1982 | 12                            | 16                              | 28                        |



## SOURCES OF STATISTICAL SERIES

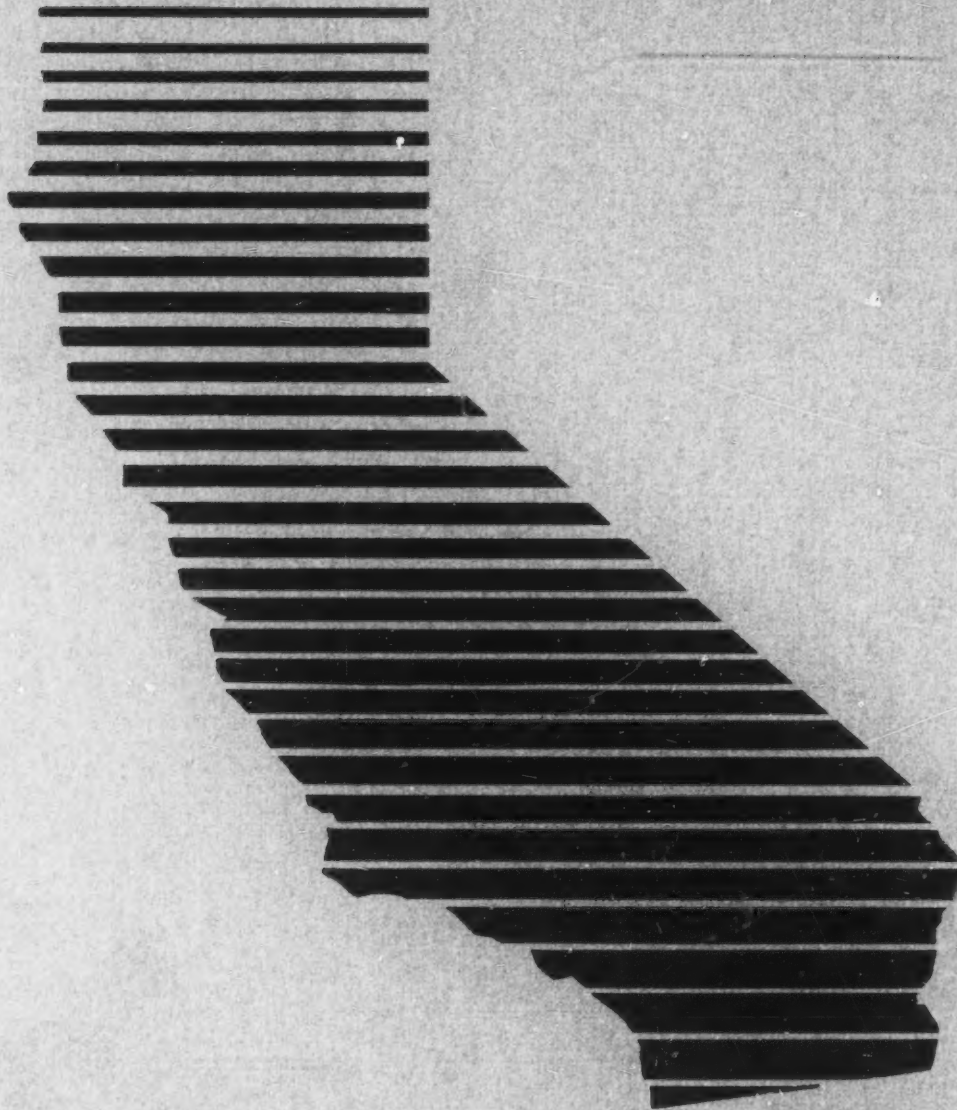
|                                                                                    |                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employment Development Department<br>Employment Data and Research                  | Civilian Employment<br>Unemployment<br>Unemployment rate<br>Nonagricultural employment<br>Manufacturing employment<br>Hours and earnings<br>Nonagricultural placements<br>Initial claims for unemployment<br>insurance<br>Insured unemployment<br>Index for production worker hours |
| Department of Industrial Relations<br>Division of Labor Statistics<br>and Research | California consumer price index                                                                                                                                                                                                                                                     |
| Department of Finance                                                              | Personal income<br>Wages and salaries<br>Index of leading indicators                                                                                                                                                                                                                |
| Department of Motor Vehicles                                                       | New auto registrations                                                                                                                                                                                                                                                              |
| State Board of Equalization                                                        | Taxable sales                                                                                                                                                                                                                                                                       |
| Security Pacific National Bank                                                     | Housing units authorized<br>Valuation of nonresidential<br>construction                                                                                                                                                                                                             |
| U.S. Department of Commerce                                                        | Retail sales                                                                                                                                                                                                                                                                        |
| U.S. Bureau of Labor Statistics                                                    | Consumer price indices                                                                                                                                                                                                                                                              |
| U.S. Department of Defense                                                         | Prime defense contracts                                                                                                                                                                                                                                                             |
| U.S. Department of Energy                                                          | Electricity production                                                                                                                                                                                                                                                              |
| California Redwood Association                                                     | Lumber production                                                                                                                                                                                                                                                                   |
| Conservation Committee of California<br>Oil Producers                              | Petroleum production                                                                                                                                                                                                                                                                |
| American Iron and Steel Institute                                                  | Steel production                                                                                                                                                                                                                                                                    |
| U.S. Bureau of Mines                                                               | Cement production                                                                                                                                                                                                                                                                   |
| California Secretary of State                                                      | New business incorporations                                                                                                                                                                                                                                                         |
| Federal Reserve Bank of<br>San Francisco                                           | Demand deposits<br>Commercial and industrial loans                                                                                                                                                                                                                                  |
| Coldwell Banker                                                                    | Vacancy Rates                                                                                                                                                                                                                                                                       |



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# **CALIFORNIA ECONOMIC INDICATORS**

**July 1987**



**DEPARTMENT OF FINANCE**

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## INTRODUCTION

California Economic Indicators is a bimonthly summary of economic trends and data relating to the State of California. Generally patterned after the U.S. Bureau of Economic Analysis publication Business Conditions Digest, the report contains regular features.

Developments in California over the most recent months are reviewed in a brief text, and then summarized in current data tables which show changes over the previous year. Charts containing monthly and quarterly series from 1978 are included to facilitate the review of current developments, and to appraise the significance of the developments on the State economy. Much of the data in the report has been seasonally adjusted by the source agency or the Department of Finance.

Reference dates for U.S. business cycles, as determined by the National Bureau of Economic Research, are also shown. Finally, sources are cited on the inside back cover to assist readers in obtaining any additional information on the statistical series published.

The Department of Finance welcomes suggestions on additions or changes which would make the Indicators a more useful publication. Correspondence should be addressed to State of California, Department of Finance, Financial Research Unit, 1025 P Street, Sacramento, CA 95814.

Subscriptions are \$8.00 per year, and begin with the January issue. The subscription price will be prorated throughout the year based upon the beginning subscription date, as shown below:

| <u>Beginning Subscription Date</u> | <u>Prorated Amount Due</u> |
|------------------------------------|----------------------------|
| January                            | \$8.00                     |
| March                              | 6.75                       |
| May                                | 5.40                       |
| July                               | 4.05                       |
| September                          | 2.70                       |
| November                           | 1.35                       |

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## REVIEW OF ECONOMIC DEVELOPMENTS

Figures for May and June confirm the California economy's solid performance during the first half of 1987. Nonagricultural wage and salary employment, based on the most recent interim benchmark revisions, has shown consistent 4 to 4.5 percent year-over-year increases throughout the first half, considerably more than the 2 to 2.5 percent gains recorded nationally.

Payroll employment rose by 140,000 during May and June, with all major industry sectors contributing to the advance, albeit to varying degrees. Service producing activities—including trade, finance, government and services—continued to evidence the most vigorous job growth. But gains were also recorded in manufacturing, particularly nondurable goods, while construction employment continued to grow, although at a somewhat reduced pace. The recent firming of metals and petroleum prices may have finally arrested the prolonged decline in mining activity, which increased marginally during June.

While the wage and salary figures, which are based on a sample of establishment payroll records, are showing consistent growth in the number of jobs, the civilian employment and unemployment data, based on a monthly survey of households, present something of a puzzle. California's unemployment rate fell more than a half percentage point in June to 5.5 percent, the lowest level since 1969. But the household data also indicated a decline in total employment, with the improvement in the jobless rate reflecting an even larger drop in the civilian labor force. A similar although less pronounced pattern was also evident in the national labor force data for June.

The problem may lie in the seasonal adjustment process, often difficult at the beginning of summer when students flood into the workforce. Unadjusted data for both the U.S. and California showed substantial May to June growth in employment and labor force numbers, but the gains were less than in past years, hence the declines on a seasonally adjusted basis.

The drop in the jobless rate—as well as employment and the labor force—will probably be at least partially reversed in the months ahead assuming seasonal adjustment was the major element in the June figures. Even so, the jobless rate has been on an encouraging downward trend and, June aside, is considerably lower than most observers have predicted given the pace of economic growth. Of note, too, is the fact that California's jobless rate is now consistently running a half percentage point below the national average.

There is quite a wide variance in the unemployment rates within the State, ranging from a low of 3.1 percent in Marin County to 19.2 percent in Imperial County. Generally, the unemployment rate is lower in the more urbanized counties along the coast. Counties with less than 4 percent unemployment, in addition to Marin, include: Orange, 3.2 percent; San Mateo, 3.3 percent; Mariposa, 3.8 percent and San Luis Obispo, 3.9 percent. Some 17 of the State's 58 counties registered jobless rates of less than 5 percent in June, a level considered by most analysts to be below the noninflationary full employment rate. In contrast, six counties—all inland and mainly rural—recorded jobless rates of over 10 percent in June. Unemployment rates for the larger counties, not seasonally adjusted, are shown in the following table.



UNEMPLOYMENT RATES--MAJOR CALIFORNIA COUNTIES  
JUNE, 1987

| AREA/COUNTY        | UNEMPLOYMENT<br>RATE (%) | AREA/COUNTY     | UNEMPLOYMENT<br>RATE (%) |
|--------------------|--------------------------|-----------------|--------------------------|
| Los Angeles Area   | 5.3                      | San Diego       | 4.4                      |
| Orange             | 3.2                      |                 |                          |
| Ventura            | 5.1                      | Sacramento Area | 5.2                      |
| San Bernardino     | 5.2                      | El Dorado       | 4.3                      |
| Riverside          | 5.6                      | Placer          | 4.8                      |
| Los Angeles        | 5.7                      | Sacramento      | 5.3                      |
|                    |                          | Yolo            | 5.9                      |
| San Francisco Area | 4.5                      |                 |                          |
| Marin              | 3.1                      | San Luis Obispo | 3.9                      |
| San Mateo          | 3.3                      | Santa Barbara   | 4.3                      |
| Napa               | 4.2                      | Monterey        | 6.4                      |
| San Francisco      | 4.5                      | Butte           | 7.7                      |
| Santa Clara        | 4.6                      | Shasta          | 8.0                      |
| Sonoma             | 4.6                      | Tulare          | 8.8                      |
| Contra Costa       | 4.8                      | Fresno          | 9.1                      |
| Alameda            | 4.9                      | San Joaquin     | 9.4                      |
| Santa Cruz         | 5.0                      | Kern            | 9.6                      |
| Solano             | 5.8                      | Merced          | 10.2                     |
|                    |                          | Stanislaus      | 12.6                     |

Includes counties with labor force of 50,000 or more.

Retail sales continue to show a moderating trend, with total sales in the three months through May (the latest figures available) rising at a 3.5 percent annual rate. On a year-over-year basis, the gain is a still healthy 7.9 percent.

Car sales, the largest single retail component, are the major influence in this trend. Strong sales late last year in anticipation of the new Federal income tax legislation were in part "borrowed" from 1987. Nonetheless, California car sales appear to be holding up considerably better than the national average. Through the first six months of 1987, California new car registrations are up 2 percent over the comparable year ago period, while U.S. unit sales are down almost 11 percent. Because of timing differences between sales and registrations, the California figures for 1987 probably include some tax related sales from

December, 1986. Even so, first half unit volume is probably no worse than even with the year ago period in California.

Homebuilding is another sector in which some 1986 activity was borrowed from 1987. Building permit volume in last year's fourth quarter was enhanced not only by the new Federal tax law (affecting multiple family construction), but also a school construction fee which was effective January 1, 1987.

Despite the December "spike" in housing permit volume to an annual rate of more than 500,000 units, activity held in a very respectable 250,000 unit area through the first four months of this year. Preliminary indications are that the pace slackened somewhat in May, possibly in response to a rise in fixed rate mortgage costs, which has since been partially reversed.

Although rising interest rates may have dampened new building activity, there appears to have been something of a "buy now" psychology in the existing home market. The California Association of Realtors reported a 6 percent increase in unit sales in May as compared to April, to a seasonally adjusted annual rate of over 600,000 units. The median sales price of approximately \$138,500 was up nearly 3 percent during the month, but only 4 percent compared to May 1986. Part of

this movement was probably seasonal, but the Realtors note a pronounced tightening of supply: sales exceeded new listings during the month and the inventory of unsold houses fell to 6.1 months in May from 6.6 months in April and 9.3 months a year earlier.

Existing home sales and price trends for the major regions are presented below. (Data for the San Francisco Bay Area are unavailable.)

#### EXISTING HOME SALES, MAJOR REGIONS, MAY 1987

| Area                     | Median<br>Sales Price | Percent Change<br>in Sales Price |        | Percent Change<br>in Unit Sales |        |
|--------------------------|-----------------------|----------------------------------|--------|---------------------------------|--------|
|                          |                       | Monthly                          | Yearly | Monthly                         | Yearly |
| Los Angeles              | \$139,977             | 2.2%                             | 8.4%   | -1.1%                           | 5.4%   |
| San Francisco            | n.a.                  | n.a.                             | n.a.   | n.a.                            | n.a.   |
| San Diego                | 129,324               | 2.5                              | 8.8    | -1.8                            | 66.7   |
| Orange County            | 167,984               | 0.1                              | 12.7   | -5.0                            | -21.9  |
| Central Valley           | 85,204                | 5.4                              | n.a.   | -2.3                            | n.a.   |
| Sacramento               | 89,567                | 2.5                              | n.a.   | 10.2                            | n.a.   |
| Palm Springs             | 99,999                | -21.1                            | 3.1    | -11.9                           | 16.9   |
| Monterey                 | 171,463               | 3.8                              | 20.1   | 15.0                            | 35.8   |
| No. Wine Country         | 115,428               | -1.3                             | n.a.   | -34.4                           | n.a.   |
| Northern California      | 70,789                | 11.9                             | 7.1    | 0.0                             | 20.7   |
| Riverside/San Bernardino | 97,720                | 1.0                              | 5.9    | 7.7                             | 59.8   |
| Ventura                  | 159,417               | 0.2                              | 8.3    | 2.5                             | 61.8   |
| Santa Barbara            | 130,000               | -18.0                            | -25.3  | 7.6                             | 28.9   |

n.a. = Not Available

Source: California Association of Realtors

Considering the persistently high office vacancy rates, nonresidential building activity has remained quite vigorous. The \$4.2 billion of permits issued through the first four months of 1987 was down less than 2 percent from the comparable 1986 level, although after considering cost increases, real volume is probably down 6 to 7 percent. According to Coldwell Banker's June survey, office vacancy rates are steady to down slightly. Most northern areas registered declines from March, but remain historically high with 18 to 25 percent of available space reported

vacant. In Southern California, vacancies are holding steady in the 17 to 22 percent range. The vacancy figures exclude projects under construction; hence, despite steady gains in office employment, a further rise in vacancies cannot be ruled out.

Following an uptick early in the year, inflation as measured by the California Consumer Price Index moderated during May and June. The June index was down 0.2 percent from May, and up 3.6 percent over the year. The June



decline was attributable to a drop in apparel prices in the San Francisco area, declining food prices in Los Angeles, a reduction in homeowners' costs (as reflected by single family house rents) and a seasonal dip in utility costs, the latter two elements in both areas.

Consumer prices in the San Francisco Bay Area were unchanged on the month and up 2.8 percent from June 1986. In the Los Angeles area, the CPI declined 0.3 percent, but was up 3.8 percent from the year ago level.

EMPLOYMENT  
(Seasonally Adjusted)

|                                                                      | 1987     |          |          |          | 1986     | Percent<br>Change<br>Jun 1986-<br>Jun 1987 |
|----------------------------------------------------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                                                                      | Jun      | May      | Apr      | Mar      | Jun      |                                            |
| Civilian Employment (000)                                            | 12,989   | 13,070   | 12,959   | 12,833   | 12,492   | 4.0                                        |
| Unemployment (000)                                                   | 753      | 847      | 802      | 822      | 816      | -14.0                                      |
| Unemployment rate                                                    | 5.5      | 6.1      | 5.8      | 6.0      | 6.6      | --                                         |
| Nonagricultural wage<br>and salary<br>employment <sup>a/</sup> (000) | 11,727.5 | 11,712.3 | 11,694.6 | 11,660.9 | 11,244.9 | 4.3                                        |
| Mining                                                               | 38.6     | 38.3     | 38.4     | 38.0     | 40.6     | -4.9                                       |
| Construction                                                         | 601.1    | 598.7    | 597.7    | 592.8    | 522.5    | 15.0                                       |
| Manufacturing                                                        | 2,073.6  | 2,071.8  | 2,072.5  | 2,075.1  | 2,060.1  | 0.7                                        |
| Aerospace <sup>b/</sup>                                              | n.a.     | 748.5    | 747.7    | 749.6    | 752.9    | --                                         |
| Transportation and<br>Public utilities                               | 595.4    | 593.3    | 593.6    | 594.3    | 571.8    | 4.1                                        |
| Trade                                                                | 2,839.5  | 2,384.2  | 2,830.1  | 2,818.0  | 2,710.7  | 4.8                                        |
| Finance, insurance<br>and real estate                                | 792.1    | 791.0    | 789.5    | 787.3    | 769.8    | 2.9                                        |
| Services                                                             | 2,920.9  | 2,917.1  | 2,905.6  | 2,891.4  | 2,750.9  | 6.2                                        |
| Government                                                           | 1,866.3  | 1,867.9  | 1,867.2  | 1,864.0  | 1,818.5  | 2.6                                        |
| Federal                                                              | 344.0    | 346.2    | 346.1    | 345.5    | 337.4    | 2.0                                        |
| State & local                                                        | 1,522.3  | 1,521.7  | 1,521.1  | 1,518.5  | 1,481.1  | 2.8                                        |

<sup>a/</sup> Interim series of wage and salary workers. This unofficial series is adjusted for the latest tabulations of unemployment insurance coverage and approximates what the official data will be when estimates are updated at year end.

<sup>b/</sup> The Interim Series does not give a breakdown for aerospace employment. These values are from the EDD official employment series, and are not seasonally adjusted.

HOURS AND EARNINGS IN MANUFACTURING

|                         | 1987     |          |          |          | 1986     | Percent<br>Change<br>May 1986-<br>May 1987 |
|-------------------------|----------|----------|----------|----------|----------|--------------------------------------------|
|                         | May      | Apr      | Mar      | Feb      | May      |                                            |
| Average weekly hours    | 40.4     | 39.5     | 40.4     | 40.3     | 40.3     | 0.2                                        |
| Average weekly earnings | \$432.68 | \$421.86 | \$432.28 | \$432.60 | \$414.69 | 4.3                                        |
| Average hourly earnings | \$10.71  | \$10.68  | \$10.70  | \$10.71  | \$10.29  | 4.1                                        |

TRADE  
(Seasonally Adjusted)

|                                    | 1987       |            |            |            | 1986       | Percent<br>Change<br>Jun 1986-<br>Jun 1987 |
|------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                    | <u>Jun</u> | <u>May</u> | <u>Apr</u> | <u>Mar</u> | <u>Jun</u> |                                            |
| Retail sales (millions)            | n.a.       | 14,893     | 15,262     | 14,625     | 14,041     | --                                         |
| New auto registrations<br>(number) | 115,982    | 111,148    | 122,638    | 112,665    | 111,736    | 3.8                                        |

CONSUMER PRICE INDEX  
(1967 = 100)

|                                           | 1987       |            |            |            | 1986       | Percent<br>Change<br>Jun 1986-<br>Jun 1987 |
|-------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                           | <u>Jun</u> | <u>May</u> | <u>Apr</u> | <u>Mar</u> | <u>Jun</u> |                                            |
| All Urban Series                          |            |            |            |            |            |                                            |
| California Average                        | 352.1      | 352.8      | 351.0      | 349.0      | 339.8      | 3.6                                        |
| San Francisco                             | 353.5      | 353.5      | 353.0      | 349.6      | 344.0      | 2.8                                        |
| Los Angeles                               | 344.2      | 345.1      | 342.8      | 341.4      | 331.3      | 3.9                                        |
| Wage Earner and Clerical<br>Worker Series |            |            |            |            |            |                                            |
| California Average                        | 340.9      | 341.4      | 339.7      | 337.7      | 329.7      | 3.4                                        |
| San Francisco                             | 347.3      | 347.0      | 346.9      | 343.4      | 338.1      | 2.7                                        |
| Los Angeles                               | 336.3      | 337.1      | 334.8      | 333.4      | 324.5      | 3.6                                        |

PRODUCTION

|                                                                     | 1987       |            |            |            | Percent<br>Change<br>May 1986-<br>May 1987 |
|---------------------------------------------------------------------|------------|------------|------------|------------|--------------------------------------------|
|                                                                     | <u>May</u> | <u>Apr</u> | <u>Mar</u> | <u>Feb</u> |                                            |
| Petroleum (000 barrels daily)                                       | n.a.       | 1,089      | 1,083      | 1,095      | --                                         |
| Portland cement (000 short tons)                                    | 842.4      | 915.3      | 824.4      | 672.9      | -1.0                                       |
| Selected redwood and whitewood<br>mill production (mil. board feet) | 76.3       | 85.1       | 78.0       | 69.3       | 17.6                                       |

n.a. Not available

# CONSTRUCTION

|                                                                         | 1987       |            |            |            | 1986       | Percent<br>Change<br>Apr 1986-<br>Apr 1987 |
|-------------------------------------------------------------------------|------------|------------|------------|------------|------------|--------------------------------------------|
|                                                                         | <u>Apr</u> | <u>Mar</u> | <u>Feb</u> | <u>Jan</u> | <u>Apr</u> |                                            |
| Private Residential<br>Housing Units<br>Authorized (000) <u>a/</u>      | 285.7      | 285.7      | 233.9      | 299.3      | 281.8      | 1.4                                        |
| Single Units                                                            | 136.7      | 166.7      | 124.6      | 152.8      | 136.3      | 0.3                                        |
| Multiple Units                                                          | 149.0      | 119.0      | 109.3      | 146.5      | 145.5      | 2.4                                        |
| Residential Building<br>Authorized Valuation<br>(millions) <u>b/</u>    | \$1,945    | \$2,036    | \$1,062    | \$2,037    | \$1,736    | 12.0                                       |
| Nonresidential Building<br>Authorized Valuation<br>(millions) <u>b/</u> | \$928      | \$1,246    | \$886      | \$1,152    | \$822      | 12.9                                       |
| Nonresidential Building<br>Authorized Valuation<br>(millions) <u>c/</u> | \$1,069    | \$1,155    | \$814      | \$926      | \$977      | 9.4                                        |
| Commercial                                                              | \$397      | \$464      | \$310      | \$324      | \$385      | 3.1                                        |
| Industrial                                                              | \$182      | \$185      | \$97       | \$157      | \$174      | 4.6                                        |
| Other                                                                   | \$168      | \$162      | \$98       | \$108      | \$149      | 12.8                                       |
| Alterations & Additions                                                 | \$314      | \$344      | \$310      | \$338      | \$268      | 17.2                                       |

a/ Seasonally adjusted annual rate.

b/ Seasonally adjusted.

c/ Not adjusted for seasonal variation.

## VACANCY RATES FOR JUNE 1987 (Percent)

|                               | Office       |                 |                 | Industrial |
|-------------------------------|--------------|-----------------|-----------------|------------|
|                               | <u>Total</u> | <u>Downtown</u> | <u>Suburban</u> |            |
| Northern & Central California |              |                 |                 | 8.2        |
| Oakland - East Bay            | 25.3         | 18.0            | 27.7            |            |
| Sacramento                    | 19.8         | 9.1             | 23.3            |            |
| San Francisco                 | 17.7         | 16.8            | 19.0            |            |
| San Jose                      | 24.8         | 22.9            | 25.2            |            |
| Southern California           |              |                 |                 | 6.7        |
| Los Angeles                   | 16.9         | 14.5            | 17.5            |            |
| Orange County                 | 20.0         | n.a.            | n.a.            |            |
| San Diego                     | 22.4         | 14.3            | 26.6            |            |
| National Average              | 20.7         | 16.3            | 22.7            |            |

# LEADING INDICATORS

|      |     | Manufacturing |              | Help        |
|------|-----|---------------|--------------|-------------|
|      |     | Overtime      | Average      | Wanted Ads, |
|      |     | Hours         | Weekly Hours | Los Angeles |
| 1986 | Jul | 3.4           | 40.2         | 118,313     |
|      | Aug | 3.4           | 40.1         | 120,722     |
|      | Sep | 3.3           | 40.3         | 121,504     |
|      | Oct | 3.4           | 40.3         | 118,755     |
|      | Nov | 3.4           | 40.4         | 126,278     |
|      | Dec | 3.3           | 40.1         | 120,128     |
| 1987 | Jan | 4.2           | 40.2         | 122,840     |
|      | Feb | 3.6           | 40.3         | 129,370     |
|      | Mar | 3.4           | 40.6         | 132,008     |
|      | Apr | 3.3           | 39.7         | n.a.        |
|      | May | 3.7           | 40.4         | n.a.        |

|      |     | Unemployment   | Housing Unit   | New            |
|------|-----|----------------|----------------|----------------|
|      |     | Insurance      | Authorizations | Business       |
|      |     | Initial Claims | (Thousands)    | Incorporations |
| 1986 | Jul | 61,056         | 285.6          | 5,732          |
|      | Aug | 58,902         | 266.3          | 4,645          |
|      | Sep | 60,069         | 284.0          | 6,084          |
|      | Oct | 55,164         | 346.2          | 5,608          |
|      | Nov | 54,606         | 290.6          | 4,779          |
|      | Dec | 59,450         | 519.1          | 5,916          |
| 1987 | Jan | 57,054         | 299.4          | 5,605          |
|      | Feb | 57,270         | 233.8          | 5,362          |
|      | Mar | 56,008         | 285.7          | 5,967          |
|      | Apr | 53,258         | 285.7          | 4,012          |
|      | May | 49,502         | n.a.           | 4,688          |
|      | Jun | 52,993         | n.a.           | 5,144          |

| California Index of Leading<br>Economic Indicators |     |       |     |       |      |     |       |
|----------------------------------------------------|-----|-------|-----|-------|------|-----|-------|
| 1986                                               | Jan | 139.2 | Jun | 144.2 | 1987 | Nov | 146.4 |
|                                                    | Feb | 142.0 | Jul | 143.5 |      | Dec | 144.8 |
|                                                    | Mar | 143.3 | Aug | 143.1 |      | Jan | 151.1 |
|                                                    | Apr | 143.5 | Sep | 144.2 |      | Feb | 150.9 |
|                                                    | May | 143.3 | Oct | 145.1 |      | Mar | 153.0 |

Note: All data seasonally adjusted.



# COINCIDENT INDICATORS

|      |     | Nonagricultural<br>Employment<br>(Thousands) | Manufacturing<br>Employment<br>(Thousands) | Unemployment<br>Rate<br>(Thousands) | Insured<br>Unemployment<br>Average<br>Weeks Claimed<br>(Thousands) |
|------|-----|----------------------------------------------|--------------------------------------------|-------------------------------------|--------------------------------------------------------------------|
| 1986 | Oct | 11,423                                       | 2,068                                      | 6.6                                 | 377                                                                |
|      | Nov | 11,440                                       | 2,063                                      | 6.8                                 | 378                                                                |
|      | Dec | 11,531                                       | 2,074                                      | 6.7                                 | 389                                                                |
| 1987 | Jan | 11,607                                       | 2,081                                      | 6.2                                 | 357                                                                |
|      | Feb | 11,642                                       | 2,078                                      | 6.2                                 | 368                                                                |
|      | Mar | 11,661                                       | 2,075                                      | 6.0                                 | 394                                                                |
|      | Apr | 11,695                                       | 2,073                                      | 5.8                                 | 359                                                                |
|      | May | 11,712                                       | 2,072                                      | 6.5                                 | 335                                                                |
|      | Jun | 11,728                                       | 2,074                                      | 5.5                                 | 347                                                                |

|      |         | Personal<br>Income<br>(Millions) | Wages & Salaries from<br>Mining, Construction &<br>Manufacturing<br>(Millions) | Taxable Sales<br>(Millions) |
|------|---------|----------------------------------|--------------------------------------------------------------------------------|-----------------------------|
| 1986 | Qtr I   | \$444,552                        | \$69,896                                                                       | \$52,726                    |
|      | Qtr II  | \$451,878                        | \$71,358                                                                       | \$53,540                    |
|      | Qtr III | \$453,697                        | \$71,025                                                                       | \$55,310                    |
|      | Qtr IV  | \$466,247                        | \$75,277                                                                       | \$55,746                    |
| 1987 | Qtr I   | \$478,305                        | \$76,398                                                                       | n.a.                        |

# OTHER INDICATORS

|      |         | DOD Prime Contracts<br>(Millions) |      |     | Electricity Production<br>(Million Kwh) |
|------|---------|-----------------------------------|------|-----|-----------------------------------------|
| 1985 | Qtr I   | 7,941                             | 1986 | Jul | 10,041                                  |
|      | Qtr II  | 4,057                             |      | Aug | 10,003                                  |
|      | Qtr III | 8,526                             |      | Sep | 9,115                                   |
|      | Qtr IV  | 7,828                             |      | Oct | 9,897                                   |
| 1986 |         |                                   |      | Nov | 9,607                                   |
|      |         |                                   |      | Dec | 9,169                                   |
|      |         |                                   |      |     |                                         |
| 1986 | Qtr I   | 8,173                             | 1987 | Jan | 9,777                                   |
|      | Qtr II  | 3,629                             |      | Feb | 10,626                                  |
|      | Qtr III | 8,109                             |      | Mar | 11,393                                  |
|      |         |                                   |      | Apr | 11,859                                  |

Note: All data seasonally adjusted.

## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are production worker man-hours, insured unemployment, manufacturing employment, and taxable sales. These series are discussed in the technical note below.

### TECHNICAL NOTE

Whenever appropriate, data used in the charts have been seasonally adjusted. The series on average weekly hours of production workers in manufacturing and production worker man-hours are adjusted by the Bureau of Labor Statistics method. Other series have been adjusted by the Bureau of the Census (Shiskin) method. Persons interested in a detailed description of these methods are referred to the U.S. Department of Labor, Bureau of Labor Statistics, the BLS Seasonal Factor Method (1964); and the U.S. Department of Commerce, Bureau of the Census, Technical Paper No. 15, The X-11 Variant of the Census Method II. Seasonal Adjustment Program (November 1965).

Under the Census Bureau seasonal method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

#### Production Worker Man-Hours

This series is a substitute for the man-hours in nonagricultural establishments series used in the Census Bureau's publication, Business Cycle

Developments. It is the cross product of average weekly hours of production workers in manufacturing and manufacturing employment. Workweek data are a leading indicator. Manufacturing employment appears to be a coincident indicator, although at times it seems to lead economic downturns. Because of this, the man-hours series has been classified in the present publication as a leading indicator.

#### Insured Unemployment

The series on total insured unemployment is being used rather than the insured unemployment rate included in the Census Bureau's indicator list. The insured rate is available only with a lag of nine months, which precludes its usefulness as a current indicator.

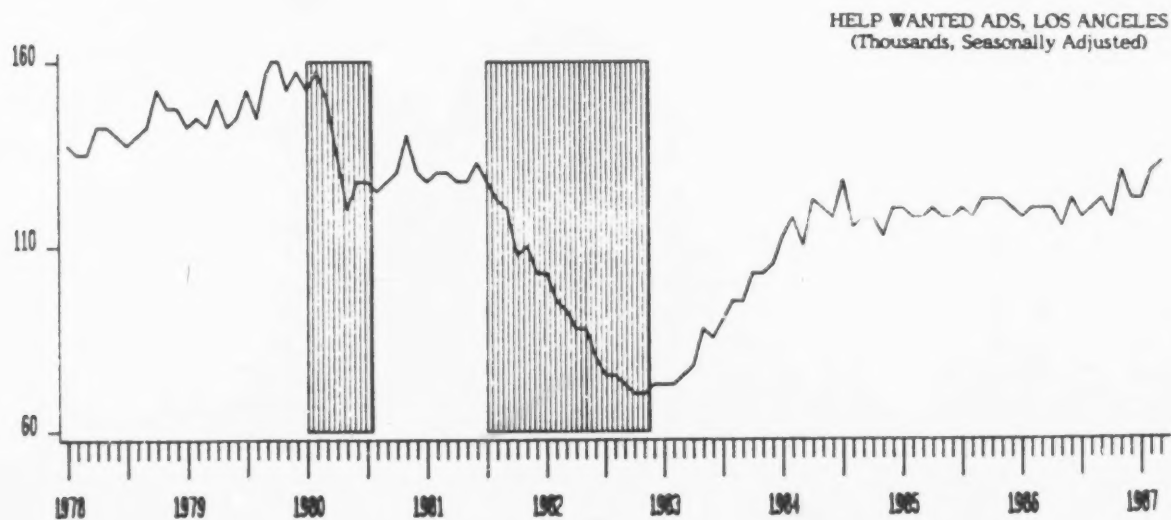
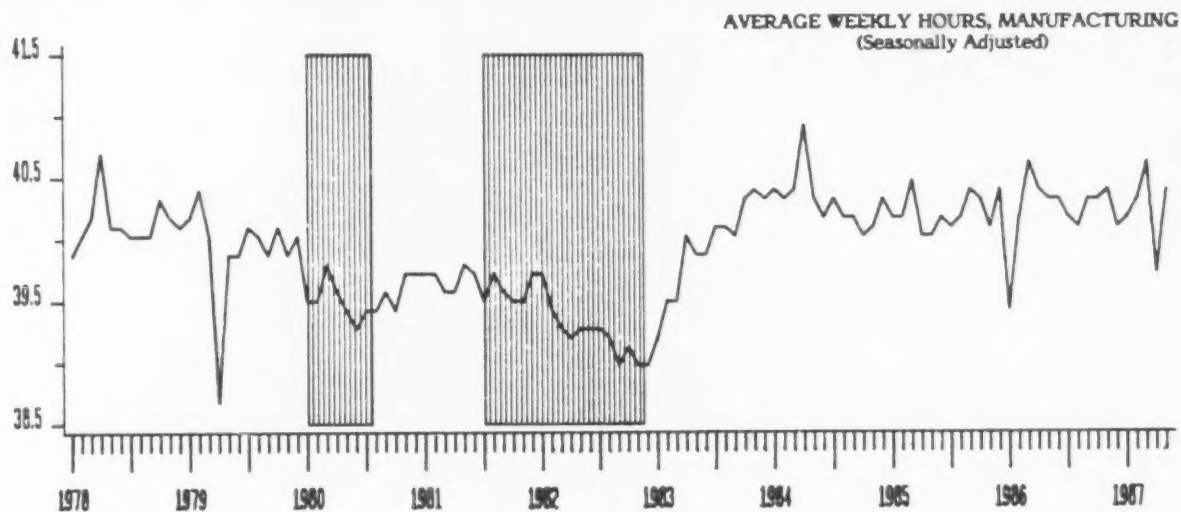
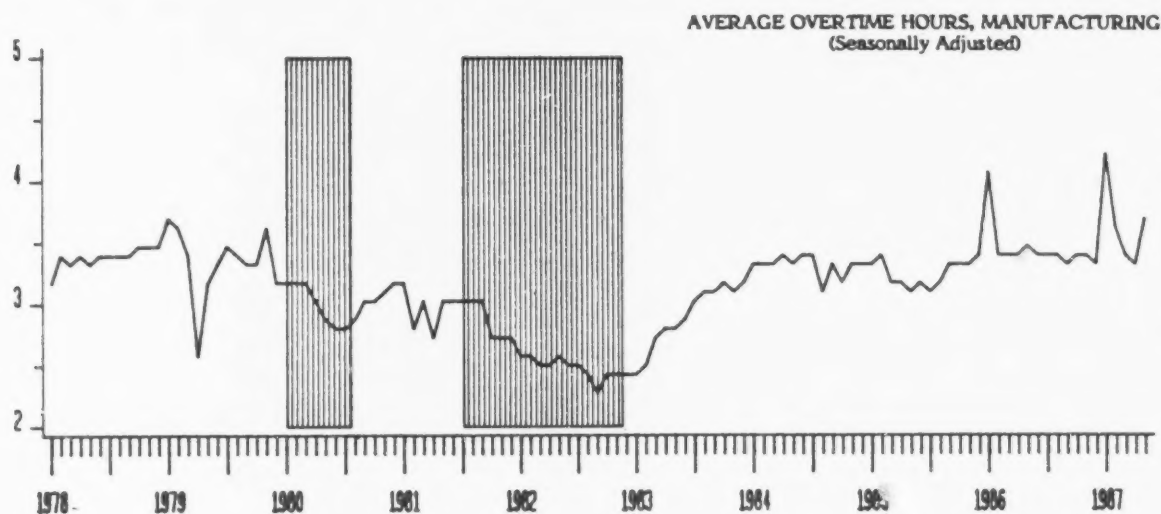
#### Manufacturing Employment

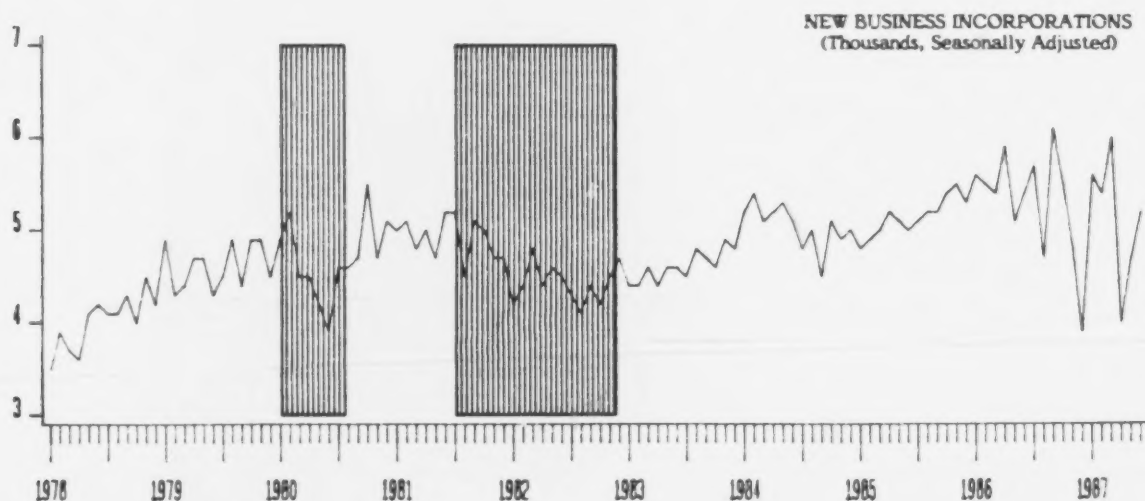
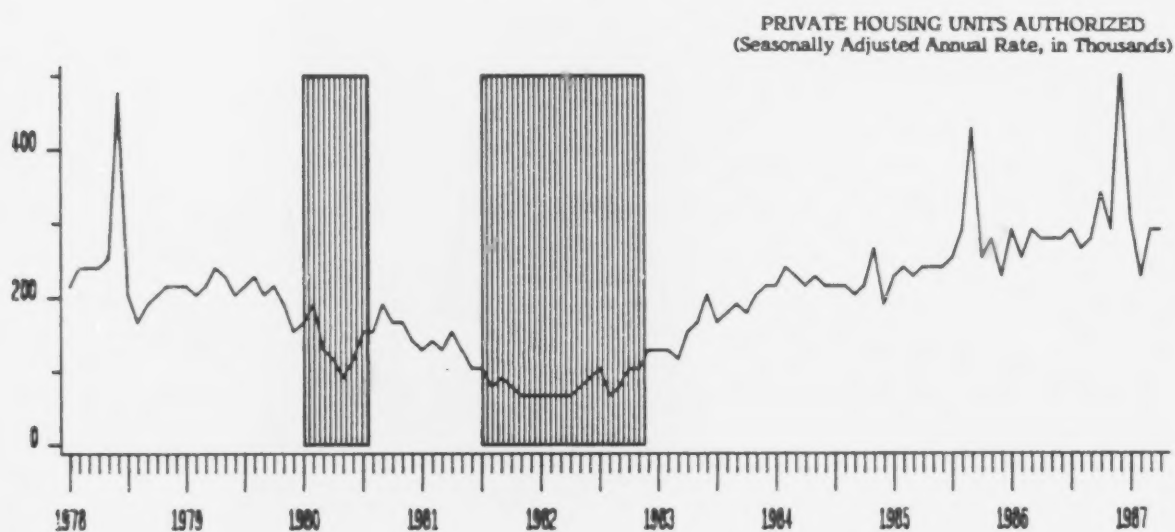
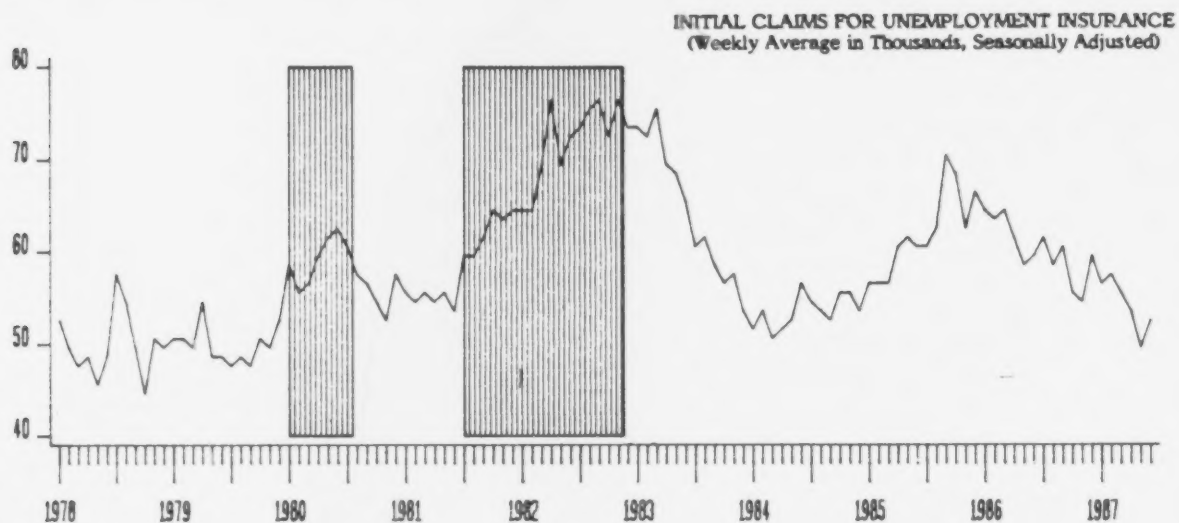
This series is also an addition to the Census Bureau indicator list. It was used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

#### Taxable Sales

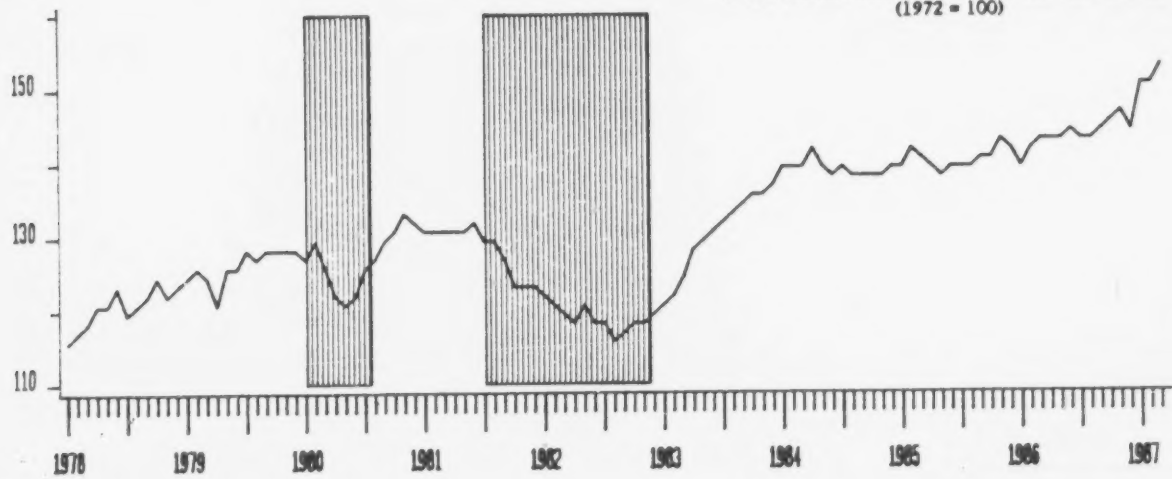
Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is therefore a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

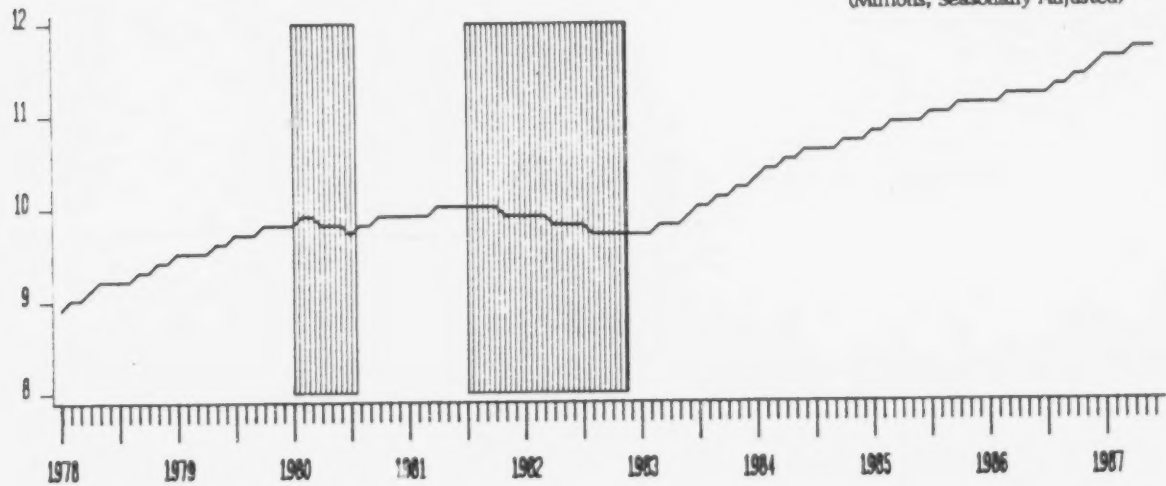




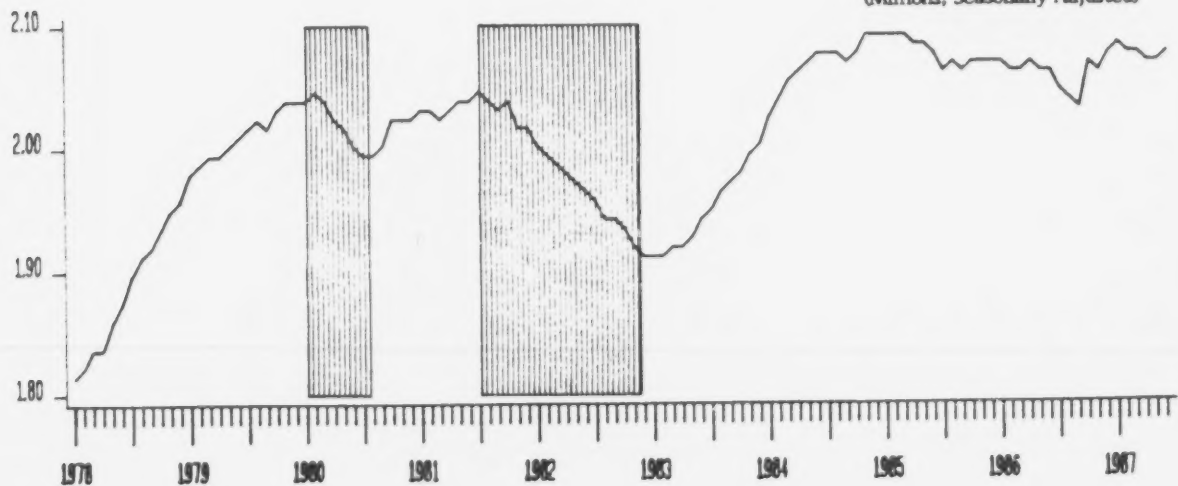
CALIFORNIA INDEX OF LEADING INDICATORS  
(1972 = 100)



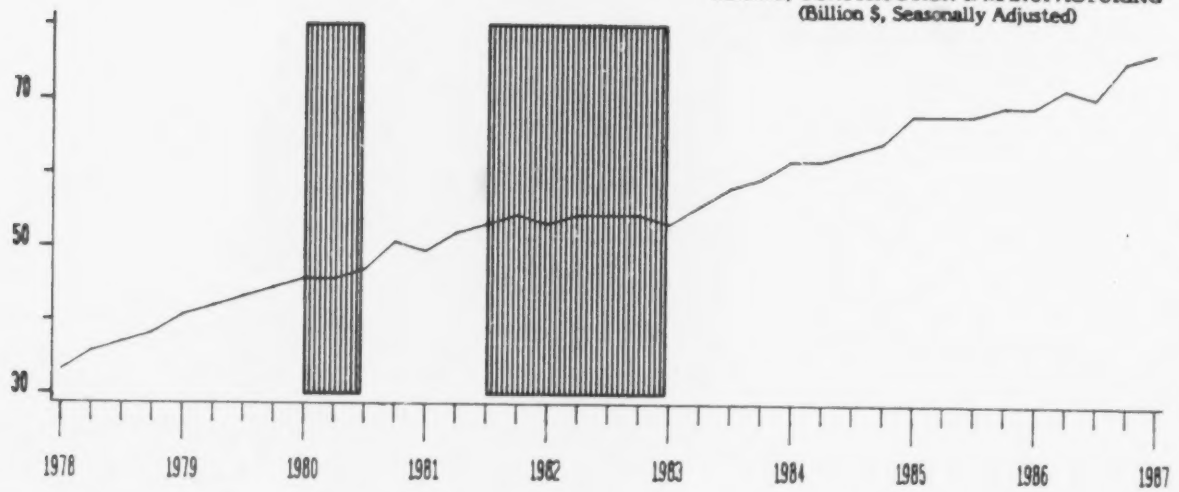
NONAGRICULTURAL EMPLOYMENT  
(Millions, Seasonally Adjusted)



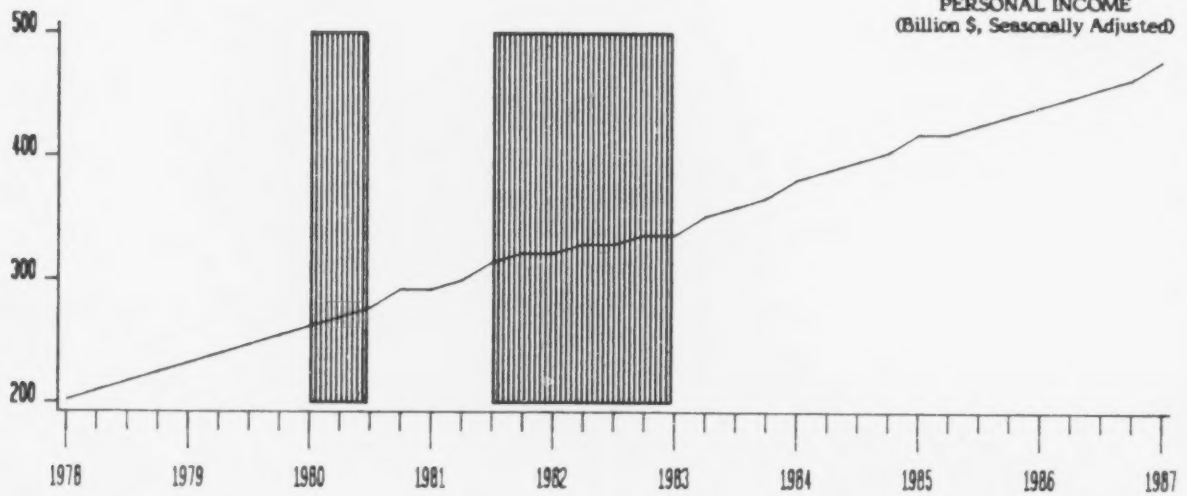
MANUFACTURING EMPLOYMENT  
(Millions, Seasonally Adjusted)



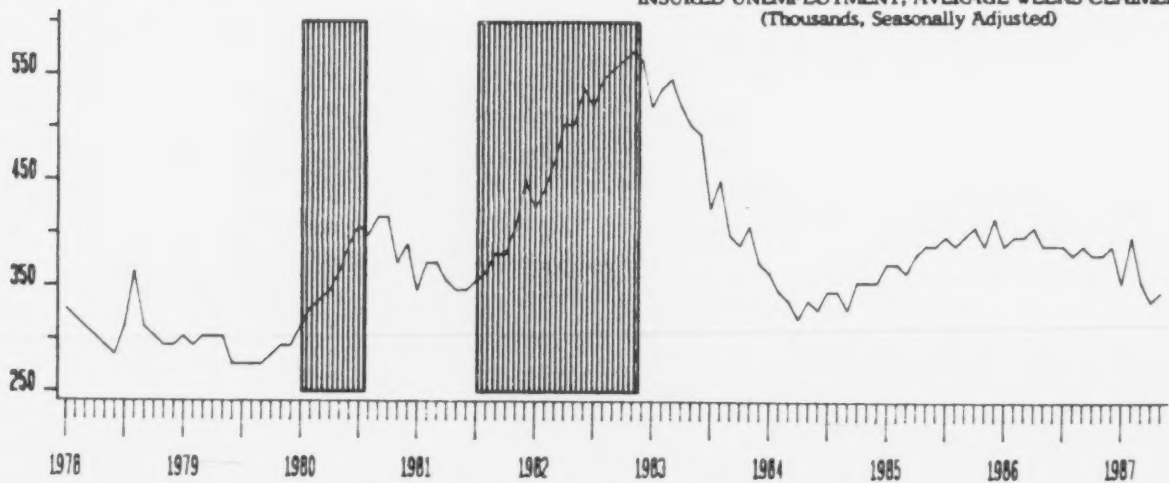
WAGES & SALARIES FROM  
MINING, CONSTRUCTION & MANUFACTURING  
(Billion \$, Seasonally Adjusted)



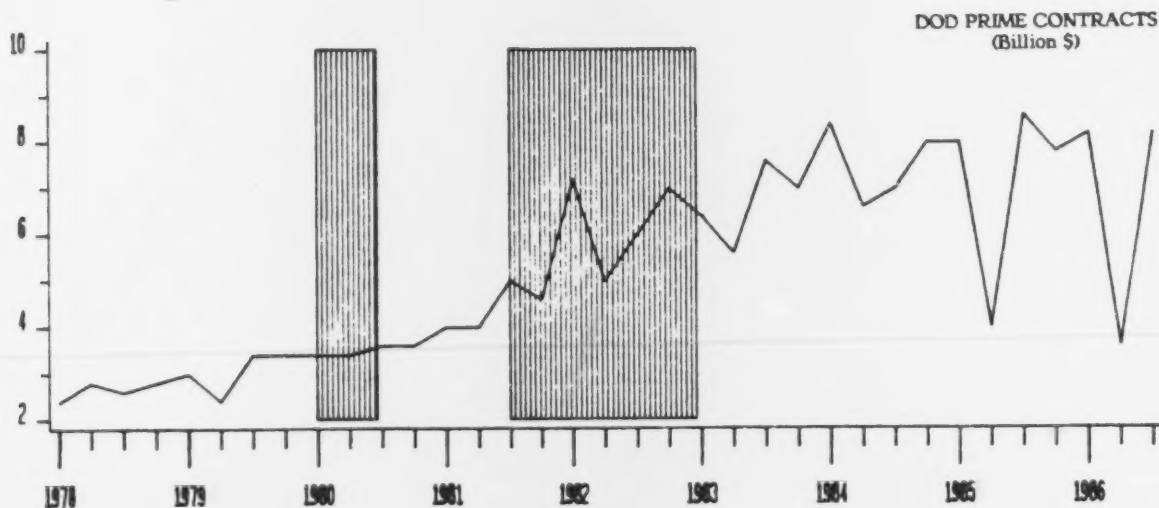
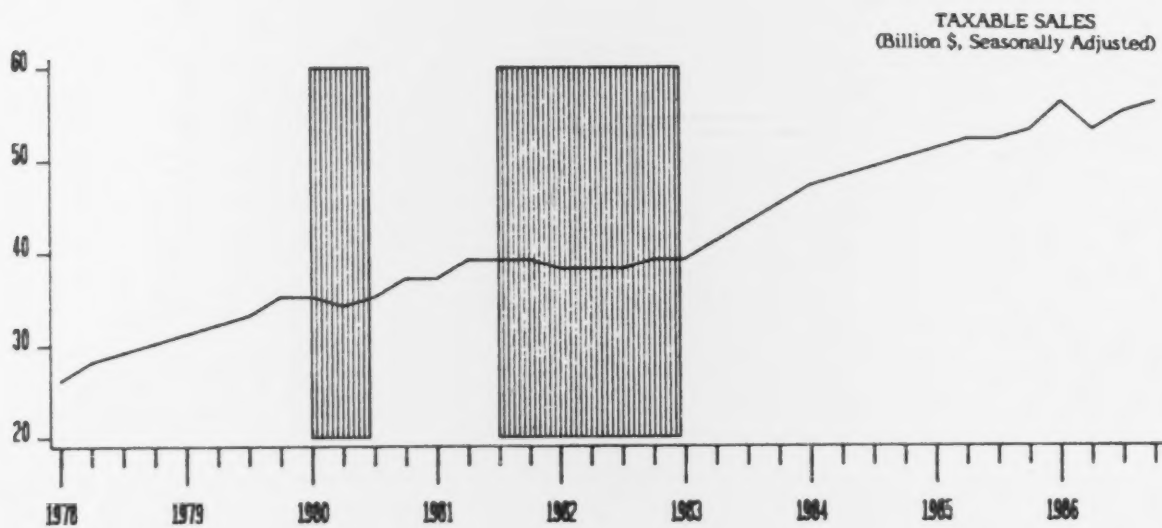
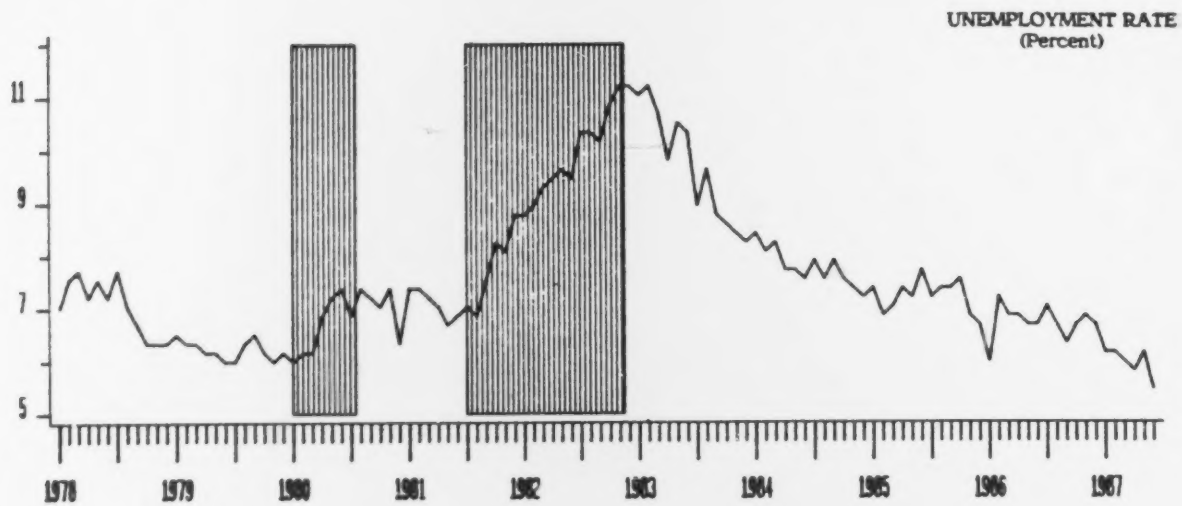
PERSONAL INCOME  
(Billion \$, Seasonally Adjusted)

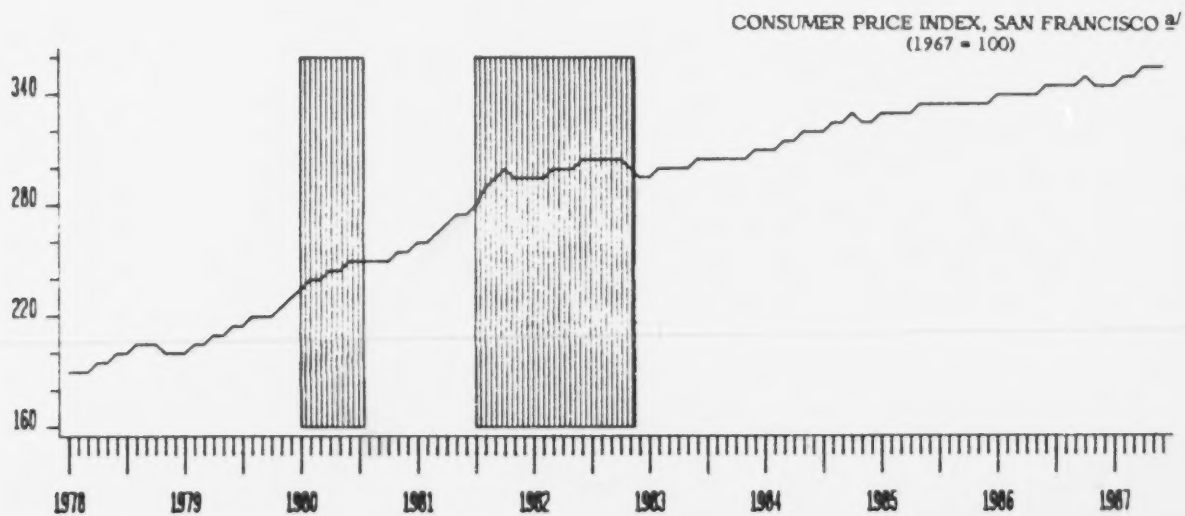
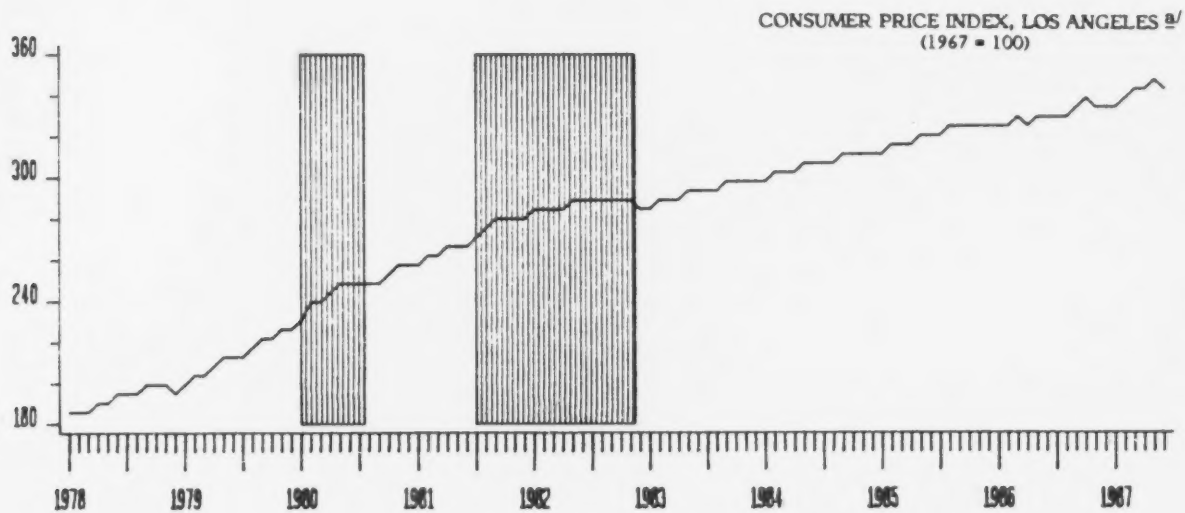
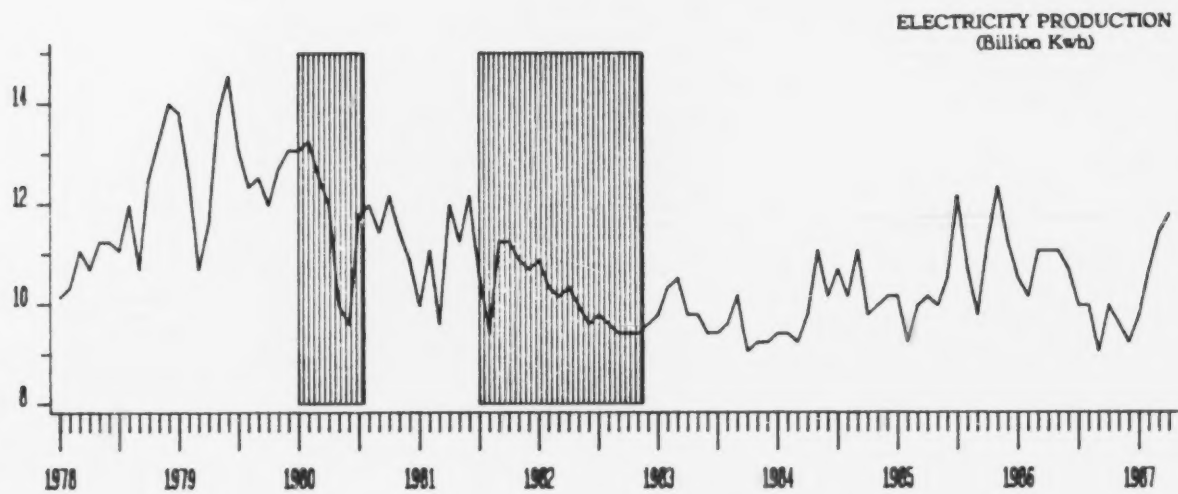


INSURED UNEMPLOYMENT, AVERAGE WEEKS CLAIMED  
(Thousands, Seasonally Adjusted)









## CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national events of general interest have also been included.

| <u>1980</u> |                                                                                  | <u>1980--Continued</u> |                                                                                           |
|-------------|----------------------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------|
| February 25 | Prime rate raised to 16-1/2 percent.                                             | April 28               | FHA mortgages reduced to 13 percent.                                                      |
| February 27 | Ceilings on interest rates for government backed mortgages raised to 13 percent. |                        | Prime rate reduced to 18-1/2 percent.                                                     |
| February 29 | Prime rate raised to 16-3/4 percent.                                             | May 5                  | Prime rate reduced to 18 percent.                                                         |
| March 4     | Prime rate raised to 17-1/4 percent.                                             | May 7                  | Prime rate reduced to 17 percent.                                                         |
| March 7     | Prime rate raised to 17-3/4 percent.                                             | May 8                  | Discount rate surcharge reimposed.                                                        |
| March 13    | Prime rate raised to 18-1/4 percent.                                             | May 12                 | Prime rate reduced to 16-1/2 percent.                                                     |
| March 14    | Announcement of tighter fiscal policies.                                         | May 19                 | Prime rate reduced to 16 percent.                                                         |
| March 17    | Three percent discount rate surcharge imposed.                                   | May 28                 | Discount rate lowered to 12 percent. Some conventional mortgage rates fell to 12 percent. |
| March 18    | Prime rate raised to 19 percent.                                                 | June 25                | Carpenters strike in Northern California ended.                                           |
| April 2     | Prime rate raised to 20 percent.                                                 | July 3                 | ICC begins trucking industry deregulation.                                                |
| April 3     | FHA mortgages raised to 14 percent.                                              | July 21-<br>October 23 | Motion picture and television industry strike.                                            |
| April 20    | Prime rate reduced to 19-1/2 percent.                                            |                        |                                                                                           |

# CHRONOLOGY--Continued

## 1980--Continued

|              |                                                                                                      |
|--------------|------------------------------------------------------------------------------------------------------|
| July 22      | Prime rate reduced to 11 percent.                                                                    |
| July 25      | Prime rate reduced to 10-3/4 percent.                                                                |
| July 28      | Discount rate reduced to 10 percent.                                                                 |
| August 5     | Prime rate raised to 11 percent.                                                                     |
| August 27    | Prime rate raised to 11-1/2 percent.                                                                 |
| September 5  | FHA mortgage interest rate raised from 11-1/2 to 12 percent.                                         |
| September 12 | California mortgage rate raised from 13-1/2 percent to 13-3/4 percent.                               |
| September 25 | Pacific Southwest Airlines (PSA) pilots strike begins.                                               |
| September 26 | Discount rate raised from 10 to 11 percent. Prime rate raised from 12-1/2 percent to 12-3/4 percent. |
| October 2    | Prime raised from 13 to 13-1/2 percent.                                                              |
| October 3    | Prime raised to 14 percent.                                                                          |
| October 15   | AFTA workers return to work.                                                                         |
| October 30   | Prime raised from 14 to 14-1/2 percent.                                                              |
| November 7   | Prime raised from 14-1/2 to 15-1/2 percent.                                                          |
| November 14  | PSA pilots strike ends.                                                                              |

## 1980--Continued

|             |                                                                                                   |
|-------------|---------------------------------------------------------------------------------------------------|
| November 17 | Prime raised to 16 1/4 percent. Discount rate raised from 11 to 12 percent and surcharge imposed. |
| November 21 | Prime raised to 17 percent.                                                                       |
| November 28 | Prime raised to 17-3/4 percent.                                                                   |
| December 3  | Prime raised from 17-3/4 to 18-1/2 percent.                                                       |
| December 5  | Discount rate raised from 12 to 13 percent. Prime raised to 19 percent.                           |
| December 11 | Prime raised to 20 percent.                                                                       |
| December 17 | Prime raised from 20 to 21 percent.                                                               |
| December 23 | Prime lowered from 21 to 20-1/2 percent.                                                          |

## 1981

|            |                                                                        |
|------------|------------------------------------------------------------------------|
| January 1  | Minimum wage raised from \$3.10 to \$3.35.                             |
| January 6  | Prime lowered to 20 percent.                                           |
| January 20 | American hostages released from Iran.                                  |
| January 20 | Ronald Reagan inaugurated as 40th President of the U.S.                |
| January 28 | Deregulation of oil and gas industry announced, effective immediately. |
| January 29 | Prime rate lowered to 19-1/2 percent from 20 percent.                  |

# CHRONOLOGY--Continued

## 1981--Continued

|                 |                                                                                                 |
|-----------------|-------------------------------------------------------------------------------------------------|
| February 16     | General Motors and Ford rebate plans announced.                                                 |
| February 23     | Prime rate lowered to 18 percent.                                                               |
| March 2         | Prime rate lowered to 18-1/2 percent.                                                           |
| March 10        | Prime rate lowered to 18 percent.                                                               |
| March 16        | Prime rate lowered to 17-1/2 percent.                                                           |
| March 18        | Prime rate lowered to 17 percent.                                                               |
| March 26-June 8 | United mine workers strike.                                                                     |
| April 13        | Prime rate raised to 17-1/2 percent.                                                            |
| April 29        | Prime rate raised to 18 percent.                                                                |
| May 4           | Prime rate raised to 19 percent.                                                                |
| May 5           | Discount rate raised from 13 percent to 14 percent.                                             |
| May 8           | FHA-VA rate up to 15-1/2 percent from 14-1/2 percent.                                           |
| May 11          | Prime rate raised to 19-1/2 percent.                                                            |
| May 22          | Prime rate raised to 20 percent.                                                                |
| May 27          | OPEC fails to agree on a uniform price schedule. OPEC officials freeze prices at current level. |

## 1981--Continued

|                           |                                                                            |
|---------------------------|----------------------------------------------------------------------------|
| June 5                    | Dollar reaches highest level in international trading since December 1971. |
| July 8                    | Prime rate raised to 20-1/2 percent.                                       |
| August 3<br>Jan. 17, 1986 | Professional Air Traffic Controller's Organization strike.                 |
| August 14                 | President Reagan signs both the tax- and budget-cut bills into law.        |
| August 18                 | FHA-VA rate up to 16-1/2 percent from 15-1/2 percent.                      |
| September 1               | Prime rate lowered to 20 percent.                                          |
| September 21              | Prime rate lowered to 19-1/2 percent.                                      |
| September 22              | Fed surcharge cut to 3 percent from 4 percent.                             |
| October                   | Introduction of All Savers Certificates to stimulate savings.              |
| October 6                 | Prime rate lowered to 19 percent.                                          |
|                           | Egyptian President Sadat assassinated.                                     |
| October 13                | Prime rate lowered to 18 percent.                                          |
| October 30                | OPEC price set at \$34.00/barrel--the Saudi benchmark.                     |
| November 1                | Passbook interest rate raised 1/2 percent to 5-3/4 percent.                |

# CHRONOLOGY--Continued

| <u>1981--Continued</u> |                                                                                                   | <u>1982--Continued</u> |                                                                                                                                          |
|------------------------|---------------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| November 2             | Fed discount rate cut from 14 percent to 13 percent.<br><br>Prime rate lowered to 17-1/2 percent. | February 2             | Prime rate raised to 16-1/2 percent by Citibank and Crocker.                                                                             |
| November 10            | Prime rate lowered to 17 percent.                                                                 | February 18            | Prime rate increased to 17 percent.                                                                                                      |
| November 13            | Prime rate lowered to 16-1/2 percent.<br><br>FHA mortgage rate lowered to 15-1/2 percent.         | February 24            | Prime rate cut back to 16-1/2 percent.                                                                                                   |
| November 16            | Prime rate lowered to 16 percent.                                                                 | March 1                | Ford-UAW Pact ratified. Workers give up two weeks of paid time off and annual 3 percent raises.                                          |
| November 17            | Fed eliminates 2 percent surcharge. Discount rate unaffected.                                     | March 8                | Prime rate lowered to 16 percent.                                                                                                        |
| December 1             | Prime rate lowered to 15-1/2 percent.                                                             | March 16               | Prime rate back up to 16-1/2 percent.                                                                                                    |
| December 4             | Fed discount rate lowered from 13 percent to 12 percent.                                          | April 1                | OPEC cuts production to 17.5 million barrels from current 18.2. Saudi bench mark set at \$34/barrels.                                    |
| December 12            | Martial law imposed in Poland.                                                                    | April 5                | Unemployment rate nationally hits 9.0 percent tying the post-WW II high in May 1975.                                                     |
| <u>1982</u>            |                                                                                                   | April 12               | General Motor and United Auto Workers labor agreement approved.                                                                          |
| January 22             | Federal funds rate raised to 13-1/2 percent.                                                      | April 26               | The U.S. consumer price index declined 0.3 percent--the first decline in 17 years and the largest drop in nearly a quarter of a century. |
| January 25             | FHA mortgage rate increased from 15-1/2 percent to 16-1/2 percent.                                | May 7                  | U.S. unemployment rate reaches 9.4 percent for a post-WW II record.                                                                      |
| January 27             | Federal funds rate raised to 13-3/4 percent.                                                      |                        |                                                                                                                                          |



# CHRONOLOGY--Continued

## 1982--Continued

|           |                                                                                                                                                                      |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| May 13    | Braniff Air Lines ceases operation.                                                                                                                                  |
| June 25   | Secretary of State Alexander Haig resigns.                                                                                                                           |
| June 28   | U.S. Supreme Court rules that federally chartered savings and loan associations cannot be prohibited from enforcing due-on-sale clauses in their mortgage contracts. |
| July 20   | Discount rate lowered from 12 percent to 11-1/2 percent. Prime rate lowered from 16-1/2 percent to 16 percent.                                                       |
| July 27   | Prime rate lowered to 15-1/2 percent.                                                                                                                                |
| August 2  | Discount rate lowered to 11 percent. Prime rate lowered to 15 percent.                                                                                               |
| August 9  | Unemployment rate reached 9.8 percent in July--the highest level since a 9.9 percent rate in 1941.                                                                   |
| August 16 | Discount rate cut from 11 percent to 10-1/2 percent. Most major banks lower their prime lending rates to 14-1/2 percent.                                             |
| August 18 | Dow Jones Industrial Average rose 38.81 points--an all-time record.                                                                                                  |
| August 19 | The stock market trading soared to a record 132,690,000 shares.                                                                                                      |
| August 27 | Discount rate lowered to 10 percent. Prime rate lowered to 13.5 percent.                                                                                             |

## 1982--Continued

|             |                                                                  |
|-------------|------------------------------------------------------------------|
| November 23 | Prime rate lowered from 12 percent to 11-1/2 percent.            |
| December 13 | Discount rate cut to 8-1/2 percent.                              |
| December 14 | Introduction of money market deposit accounts by banks and S&Ls. |

## 1983

|             |                                                                                               |
|-------------|-----------------------------------------------------------------------------------------------|
| January 5   | Super NOW accounts introduced.                                                                |
| January 11  | Prime rate lowered to 11 percent.                                                             |
| January 31  | Independent truckers strike begins.                                                           |
| February 10 | Independent truckers strike end.                                                              |
| February 15 | Toyota/GM agreement to build a small car in late 1984.                                        |
| February 25 | Prime rate lowered to 10-1/2 percent.                                                         |
| March 14    | OPEC sets \$29 per barrel benchmark price and production quota of 17.5 million barrels.       |
| May 2       | A 6.5 magnitude earthquake strikes the town of Coalinga.                                      |
|             | An earthquake measuring 6.5 on the Richter scale strikes Coalinga, California.                |
| June 8      | The maximum rate on government-backed mortgages was raised from 11-1/2 percent to 12 percent. |
| June 18     | Paul Volcker reappointed as Federal Reserve Board Chairman.                                   |

# CHRONOLOGY--Continued

## 1983--Continued

June 24 The Federal Budget deficit totalled a record \$29.29 billion in May.

July 7 The maximum rate on government-backed mortgages was raised from 12 percent to 12-1/2 percent.

July 13 Chrysler Corporation announced it will repay the remaining \$800 million in federally guaranteed loans by September, seven years before they are due.

July 25 The Washington Public Power Supply System defaulted on \$2.25 billion in bonds, creating the largest municipal default in U.S. history.

August 1 California's \$1.2 billion offering of revenue-anticipation notes, the State's largest note issue, drew strong investor interest. Notes totalling \$700 million, maturing next April and June, were oversubscribed.

August 2 The maximum rate on government backed mortgages rose from 12-1/2 percent to 13-1/2 percent.

August 7-  
August 28 The Communications Workers of America and two other unions strike AT&T.

August 8 Prime rate raised from 10-1/2 percent to 11 percent by most major banks.

## 1983--Continued

August 23 The maximum rate on government backed mortgages fell from 13-1/2 percent to 13 percent.

September 1 Soviet Union shoots down Korean Airlines Flight 007, New York to Seoul, near the Soviet Island of Salhalin, just north of Japan.

November 1 Maximum rate on VA & FHA mortgages lowered from 13 percent to 12.5 percent.

November 3-  
December 21 Strike against Greyhound Lines Inc.

December 1 FHA mortgage interest rates begin to float. VA rates are still pegged.

## 1984

January 3 Breakup of AT&T becomes effective.

February 2 Contemporaneous reserve accounting is required by Fed for all but the very small deposit-taking institutions.

March 19 Prime rate raised from 11 percent to 11-1/2 percent.

March 20 Maximum rate on VA loans raised from 12-1/2 to 13 percent.

April 4 Prime rate raised from 11-1/2 percent to 12 percent.

April 9 Discount rate raised from 8-1/2 percent to 9 percent; the first change in 3 years.

May 5 Prime rate raised from 12 percent to 12-1/2 percent.

# CHRONOLOGY--Continued

## 1984--Continued

June 26 Prime rate raised from 12-1/2 percent to 13 percent.

September 3 - Hotel and restaurant strike - San Francisco.  
December 7

September 15 - UAW-General Motors strike.  
October 14

September 28 Prime rate reduced from 13 percent to 12-3/4 percent.

October 16 Prime rate reduced from 12-3/4 percent to 12-1/2 percent.

October 28 Prime rate reduced from 12-1/2 percent to 12 percent.

November 7 Prime rate reduced from 12 percent to 11-3/4 percent.

November 21 Discount rate reduced from 9 percent to 8-1/2 percent.

November 28 Prime rate reduced from 11-3/4 percent to 11-1/4 percent.

December 17 Prime rate reduced from 11-1/4 percent to 10-3/4 percent.

December 24 Discount rate reduced from 8-1/2 percent to 8 percent.

## 1985

January 1 Federal price controls removed from approximately half of the natural gas produced in the United States.

## 1985 Continued

January 15 Prime rate reduced from 10-3/4 percent to 10-1/2 percent.

March 9 Home State Savings Bank Cincinnati, Ohio closed.

March 15 Seventy Ohio thrift institutions closed to prevent run on deposits.

March 25 Maximum rate on VA loans raised from 12-1/2 percent to 13 percent.

May 2 Auto manufacturer's initiate low interest loan programs.

May 17- June 14 United Airlines--Air Pilots Association strike.

May 17 Prime rate reduced from 10-1/2 percent to 10 percent.

May 20 Dow Jones Industrials close above 1,300 for the first time.

May 29 Presidents' tax reform plan unveiled.

June 18 Prime rate reduced to 9 1/2 percent from 10 1/2 percent.

July 16 Conventional mortgage rates fell to 12.03 percent average--the lowest since October 1979.

July 22- October 16 8,200 steelworkers on strike at Wheeling Pittsburgh--the industry's first major walkout in 26 years.

August 15 GM announces 7.7 percent financing rate program to run through October 2nd.

## CHRONOLOGY--Continued

### 1985--Continued

|              |                                                                                                                                                                                                        |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| August 20    | Ford and Chrysler announce incentive plans including low interest loans and rebates on 1985 autos.                                                                                                     |
| September 4  | The Farm Credit System seeks a Federal bailout of its \$74 billion loan portfolio.                                                                                                                     |
| September 15 | A State Department of Housing and Community Development regulation requiring equal access on accessible levels of apartment houses with five or more units, for handicapped persons, went into effect. |
| September 16 | Saudi Arabia announces plans to boost oil production and cut prices. —                                                                                                                                 |
| September 22 | G-5 agreement to push the dollar lower.                                                                                                                                                                |
| November 7   | Dow Jones Industrials close above 1400 for the first time.                                                                                                                                             |
| December 10  | World oil prices fall by more than a dollar after OPEC decides to abandon price supports.                                                                                                              |
| December 12  | President Reagan signs the budget deficit bill into law, raising the debt ceiling to \$2 trillion and setting deficit targets for each year through 1991.                                              |
| December 23  | President Reagan signs the farm subsidy bill into law, creating a 5-year plan to bail out the Farm Credit System.                                                                                      |

### 1986

|             |                                                                                                                                             |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| January 1   | Ceiling on Super NOW accounts was removed.                                                                                                  |
| January 17  | United Steel workers leaders agreed to allow rank-and-file members to vote on labor contracts for the first time in the union's history.    |
| January 28  | Space shuttle Challenger explosion destroys the spacecraft. Seven crew members died.                                                        |
| February 26 | Corazon Aquino takes over Phillipines as the new president.                                                                                 |
| March 3     | Dow Jones Industrials close above 1700 for the first time.                                                                                  |
| March 4     | Yields on 10-year Treasury Notes fall below 8 percent for the first time in eight years.                                                    |
|             | Oil prices fall to \$12 per barrel.                                                                                                         |
| March 7     | The discount rate reduced from 7-1/2 percent to 7 percent, following similar cuts by Germany & Japan.                                       |
| March 21    | Dow Jones Industrials close above 1800 for the first time.                                                                                  |
|             | Conservative Chirac appointed as Prime Minister of France.                                                                                  |
| March 25    | U.S. warplanes attacked two Libyan ships and a shoreline missile site after Libyan missiles were fired at U.S. planes in the Gulf of Sidra. |
| April 1     | Interest ceilings on passbook saving accounts ended.                                                                                        |

# CHRONOLOGY--Continued

| <u>1986--Continued</u> |                                                                                                                                            | <u>1986--Continued</u>     |                                                                                                                                                |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1                | Oil prices fall to under \$11 per barrel.                                                                                                  | July 10                    | The Fed lowered the discount rate from 6-1/2% to 6%.                                                                                           |
| April 14               | U.S. air strike against Libya.                                                                                                             | August 1                   | United steelworkers strike for the first time since 1959. 44,000 workers were involved.                                                        |
| April 21               | U.S. Dollar reaches a post-WWII low against the Yen at 168.60.<br><br>Discount rate cut from 7 percent to 6-1/2 percent.                   | August 20                  | The discount rate was reduced from 6 percent to 5-1/2 percent.                                                                                 |
| April 23               | Paul Volcker warns of public and private debt buildup as a threat to the economy.                                                          | August 27                  | The prime rate was cut to 7-1/2 percent from 8 percent.                                                                                        |
| April 25               | Soviet nuclear plant at Chernobyl destroyed by fire.                                                                                       | August 28                  | General Motors Corp. introduces a new incentive program to lure consumers by an unprecedented auto loan rate of 2.9 percent.                   |
| May 12                 | U.S. dollar falls to 159.95 Yen.                                                                                                           | September 4                | Stock market prices soared as the Dow Jones Industrial average jumped 38.38 points to a closing record of 1919.17.                             |
| May 22                 | U.S. proposes 35 percent tariff on Canadian cedar shakes and shingles for roofing, leading to a trade dispute between the U.S. and Canada. | September 5                | California bank and corporation tax law was amended to provide for a "Waters-Edge" election. This is an alternate treatment of taxable income. |
| June 1-<br>June 26     | CWA strike at AT&T.                                                                                                                        | September 11               | The Dow Jones Industrial average plummeted a record 86.61 points, or 4.61 percent to 1792.89.                                                  |
| July 7                 | The U.S. Supreme Court ruled that the Gramm-Rudman-Hollings mechanism for across the-board, automatic spending cuts was unconstitutional.  | October 22                 | President Reagan signs the tax reform bill into law, the first full scale remodification since 1954.                                           |
| July 7                 | The Dow Jones Industrial average was down a record 61.87 points.                                                                           | October 27-<br>December 13 | Union employees from Kaiser Foundation Hospital, Kaiser Permanente Medical Group, Inc. & Kaiser Foundation Health Plan strike                  |



# CHRONOLOGY--Continued

## 1986--Continued

November 1 The savings bond rate dropped from 7-1/2 percent to 6 percent, affecting new issues only.

## 1987

January 1 California Legislature approved a measure, effective Jan. 1, 1987, giving school districts the local option to access \$1.50 per square foot on new residential construction and \$.25 per square foot on new nonresidential construction.

Fannie Mae raises mortgage ceiling to \$153,100 from \$133,250.

OPEC's 7 percent production cut went into effect. U.S. oil prices hit \$18 per barrel.

January 8 The Dow Jones Industrial average topped the 2000 mark.

January 19 The Dow Jones Industrial average topped the 2100 mark.

The California Trade Office opened in Tokyo.

The dollar fell to a record low against the yen--150.49 yen to the dollar.

January 22 The Dow Jones Industrial average posted a record 51.60 percent gain to a new high of 2145.67.

## 1987--Continued

February 5 Brazil suspends interest payments on commercial debt.

The Dow Jones Industrial average topped the 2200 mark.

March 5 Ecuador is rocked by severe earthquake.

March 16 Fannie Mae announces it will not enter home equity loan market.

March 20 The Dow Jones Industrial average topped the 2300 mark.

March 24 U.S. dollar falls to post WW II low--148.5 yen to the dollar.

April 1 The prime rate increased from 7-1/2 to 7-3/4 percent.

April 6 The Dow Jones Industrial average topped the 2400 mark.

April 13 The California Trade Office opened in London.

May 1 The prime rate was increased from 7-3/4 percent to 8 percent.

May 5 Immigration amnesty program in effect.

May 7 The Farm Credit System formally asked Congress for a \$6 billion loan from the Treasury.

May 15 The prime rate was increased to 8-1/4 percent from 8 percent.

May 17 The U.S.S. Stark was struck by an air-launched Iraqi missile in the Persian Gulf.



## CHRONOLOGY--Continued

### 1987 (Continued)

- |           |                                                                          |
|-----------|--------------------------------------------------------------------------|
| June 1    | Penalties in place for employers of illegal aliens.                      |
| July 17   | Dow Jones Industrials close over 2,500 for the first time.               |
| July 22   | Kuwaiti tankers placed under U.S. flag for transit through Persian Gulf. |
| August 11 | Alan Greenspan sworn in as Chairman of the Federal Reserve Board.        |

# REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-1982

| <u>Initial<br/>Trough</u> |      | <u>Peak</u> |      | <u>Terminal<br/>Trough</u> |      | <u>Expansion<br/>(months)</u> | <u>Contraction<br/>(months)</u> | <u>Total<br/>(months)</u> |
|---------------------------|------|-------------|------|----------------------------|------|-------------------------------|---------------------------------|---------------------------|
| Dec.                      | 1854 | June        | 1857 | Dec.                       | 1858 | 30                            | 18                              | 48                        |
| Dec.                      | 1858 | Oct.        | 1860 | June                       | 1861 | 22                            | 8                               | 30                        |
| June                      | 1861 | April       | 1865 | Dec.                       | 1867 | 46                            | 32                              | 78                        |
| Dec.                      | 1867 | June        | 1869 | Dec.                       | 1870 | 18                            | 18                              | 36                        |
| Dec.                      | 1870 | Oct.        | 1873 | March                      | 1879 | 34                            | 65                              | 99                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1879 | March       | 1882 | May                        | 1885 | 36                            | 38                              | 74                        |
| May                       | 1885 | March       | 1887 | April                      | 1888 | 22                            | 13                              | 35                        |
| April                     | 1888 | July        | 1890 | May                        | 1891 | 27                            | 10                              | 37                        |
| May                       | 1891 | Jan.        | 1893 | June                       | 1894 | 20                            | 17                              | 37                        |
| June                      | 1894 | Dec.        | 1895 | June                       | 1897 | 18                            | 18                              | 36                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| June                      | 1897 | June        | 1899 | Dec.                       | 1900 | 24                            | 18                              | 42                        |
| Dec.                      | 1900 | Sept.       | 1902 | Aug.                       | 1904 | 21                            | 23                              | 44                        |
| Aug.                      | 1904 | May         | 1907 | June                       | 1908 | 33                            | 13                              | 46                        |
| June                      | 1908 | Jan.        | 1910 | Jan.                       | 1912 | 19                            | 24                              | 43                        |
| Jan.                      | 1912 | Jan.        | 1913 | Dec.                       | 1914 | 12                            | 23                              | 35                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| Dec                       | 1914 | Aug.        | 1918 | March                      | 1919 | 44                            | 7                               | 51                        |
| March                     | 1919 | Jan.        | 1920 | July                       | 1921 | 10                            | 18                              | 28                        |
| July                      | 1921 | May         | 1923 | July                       | 1924 | 22                            | 14                              | 36                        |
| July                      | 1924 | Oct.        | 1926 | Nov.                       | 1927 | 27                            | 13                              | 40                        |
| Nov.                      | 1927 | Aug.        | 1929 | March                      | 1933 | 21                            | 43                              | 64                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| March                     | 1933 | May         | 1937 | June                       | 1938 | 50                            | 13                              | 63                        |
| June                      | 1938 | Feb.        | 1945 | Oct.                       | 1945 | 80                            | 8                               | 88                        |
| Oct.                      | 1945 | Nov.        | 1948 | Oct.                       | 1949 | 37                            | 11                              | 48                        |
| Oct.                      | 1949 | July        | 1953 | May                        | 1954 | 45                            | 10                              | 55                        |
| May                       | 1954 | Aug.        | 1957 | April                      | 1958 | 39                            | 8                               | 47                        |
|                           |      |             |      |                            |      |                               |                                 |                           |
| April                     | 1958 | April       | 1960 | Feb.                       | 1961 | 24                            | 10                              | 34                        |
| Feb.                      | 1961 | Dec.        | 1969 | Nov.                       | 1970 | 106                           | 11                              | 117                       |
| Nov.                      | 1970 | Nov.        | 1973 | March                      | 1975 | 36                            | 16                              | 52                        |
| March                     | 1975 | Jan.        | 1980 | July                       | 1980 | 58                            | 6                               | 64                        |
| July                      | 1980 | July        | 1981 | Nov.                       | 1982 | 12                            | 16                              | 28                        |

## SOURCES OF STATISTICAL SERIES

|                                                                                    |                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employment Development Department<br>Employment Data and Research                  | Civilian Employment<br>Unemployment<br>Unemployment rate<br>Nonagricultural employment<br>Manufacturing employment<br>Hours and earnings<br>Nonagricultural placements<br>Initial claims for unemployment<br>insurance<br>Insured unemployment<br>Index for production worker hours |
| Department of Industrial Relations<br>Division of Labor Statistics<br>and Research | California consumer price index                                                                                                                                                                                                                                                     |
| Department of Finance                                                              | Personal income<br>Wages and salaries<br>Index of leading indicators                                                                                                                                                                                                                |
| Department of Motor Vehicles                                                       | New auto registrations                                                                                                                                                                                                                                                              |
| State Board of Equalization                                                        | Taxable sales                                                                                                                                                                                                                                                                       |
| Security Pacific National Bank                                                     | Housing units authorized<br>Valuation of nonresidential<br>construction                                                                                                                                                                                                             |
| U.S. Department of Commerce                                                        | Retail sales                                                                                                                                                                                                                                                                        |
| U.S. Bureau of Labor Statistics                                                    | Consumer price indices                                                                                                                                                                                                                                                              |
| U.S. Department of Defense                                                         | Prime defense contracts                                                                                                                                                                                                                                                             |
| U.S. Department of Energy                                                          | Electricity production                                                                                                                                                                                                                                                              |
| California Redwood Association                                                     | Lumber production                                                                                                                                                                                                                                                                   |
| Conservation Committee of California<br>Oil Producers                              | Petroleum production                                                                                                                                                                                                                                                                |
| American Iron and Steel Institute                                                  | Steel production                                                                                                                                                                                                                                                                    |
| U.S. Bureau of Mines                                                               | Cement production                                                                                                                                                                                                                                                                   |
| California Secretary of State                                                      | New business incorporations                                                                                                                                                                                                                                                         |
| Federal Reserve Bank of<br>San Francisco                                           | Demand deposits<br>Commercial and industrial loans                                                                                                                                                                                                                                  |
| Coldwell Banker                                                                    | Vacancy Rates                                                                                                                                                                                                                                                                       |